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The use to be made of this reserve is indicated in the following passage (para. 59):—

"Although the Government of India should not, in our opinion, be bound by law "to part with its gold in exchange for rupees, or for merely internal purposes, we "regard it as the principal use of a gold reserve that it should be freely available "for foreign remittances whenever the exchange falls below specie point; and the "Government of India should make its gold available for this purpose, when "necessary, under such conditions as the circumstances of the time may render "desirable . . . and, when it has accumulated a sufficient gold reserve, and so "long as gold is available in its Treasury, it might discharge its obligations in "India in gold, instead of in rupees."

It will be observed that "the effective establishment of a gold standard" was the paramount object which the Committee of 1898 set before the Indian authorities. The other recommendations which we have quoted were made only because they were considered to be necessarily connected with that supreme purpose.

20. These recommendations were accepted in their entirety by the Indian authorities. It remains to consider shortly the history of events since 1899. In one respect this history is very simple. In 1898 the exchange value of the rupee touched 1*s.* 4*d.* for the first time since the closing of the mints to silver, and, except for one [illegible] fall to below specie point for a brief period during the crisis of 1907–8, temporarily, it has remained fixed at the par of 1*s.* 4*d.* ever since.

21. This simple statement does not, however, reveal the underlying complexities of the story. [illegible] XII. of 1899 making the sovereign and half sovereign legal tender throughout India [illegible] rupees to the £ gave effect to the first recommendation of the Committee. This [illegible] is the only statutory provision for the rating of the rupee at 1*s.* 4*d.*, and has the effect of providing a statutory means of preventing the rupee from rising above the [illegible] of 1*s.* 4*d.* But it is obvious that this Act does nothing to prevent the rupee [illegible] falling below 1*s.* 4*d.*, and would be a dead letter if at any time it became cheaper to give 15 rupees in settlement of a debt than to give one sovereign.

22. Active steps were taken at the [illegible] same date to give effect to the second recommendation, viz., the opening of a mint for the coinage of gold in India. The scheme was dropped after nearing completion in 1902, and has only recently been revived. But the knowledge that steps were being taken in this direction during the years 1899 to 1902 perhaps contributed to convince public opinion in India and elsewhere that the Government were determined to maintain the gold standard.

23. The third recommendation of the Committee was that the profits on the coinage of rupees should be set apart and kept in gold as a special reserve. The Gold Standard Reserve, as it is now called, is the outcome of this recommendation. By the middle of January 1900 the stock of gold in the Paper Currency Reserve in India had reached 5,000,000*l.* Though gold coins were now legal tender in India, the public continued to demand rupees, and the Government had to consider whether they should resume the coinage of rupees, for the first time since 1893.

24. The provisions of the Act of 1893 and the notification issued by the Government thereunder of their readiness to accept gold at the mints and Paper Currency Offices at the rate of 15 rupees to the £ had been supplemented in 1898 by an Act which authorised the issue at the same rate of notes in India against gold deposited in London and earmarked at the Bank of England as part of the Paper Currency Reserve. This Act was at first intended to be temporary. Its effect was to facilitate Government remittances to London, to add to the gold resources of India, and to introduce elasticity to the currency by allowing of the issue of rupees or notes in India against gold tendered in London. But this additional issue of currency against gold [illegible] in London added to the drain on the rupee reserves of the Government in India.

25. In view of this drain, the Government of India proceeded to [illegible] recommendations of the Committee of 1898 by making an active effort to induce people of India to use sovereigns as a medium of circulation. The [illegible] were instructed to offer sovereigns to presenters of notes, while giving [illegible] one who objected to receiving sovereigns, and at the same time the [illegible] other institutions under Government control were utilised to press [illegible] public. The results were unsatisfactory. Many of the gold coins [illegible] way back into Government's hands, and the Government found [illegible]

cash currency notes in rupees not only at the Cawnpore and other treasuries in the North West Provinces (where though not legally bound to do so, they had been in the habit of encashing notes), but on the 11th April 1900 at the Head Office in Calcutta itself. Notes became subject to a discount of as much as $\frac{7}{16}$ths per cent. in Cawnpore, and there was serious danger of a failure of confidence in the paper currency. Meanwhile sovereigns also went to a discount of as much as 4 annas in many places. Special demands for rupees, owing to famine conditions, and the inadequacy of the supplies of the favourite circulating medium combined to aggravate the general monetary stringency.

26. In these circumstances the Government of India resumed the coinage of rupees early in 1900 on a considerable scale. Recourse to the London silver market soon became necessary, and the Act of 1898 just mentioned was continued for a further period of two years with the addition of a provision authorising the use of the gold held in the Paper Currency Chest in London for the purchase of silver for coinage of rupees and the treatment of the silver so purchased as part of the Reserve against notes in circulation during the interval between purchase and mintage. An Act of 1902 made the whole of these provisions permanent.

Since 1900 the Government of India have not repeated the experiment of forcin[illegible] gold coins into circulation, and in many years the coinage of rupees has been [illegible] very large scale.

27. It was decided in 1900 to follow the recommendation of the [illegible] on a 1898 and to form a special reserve from the profits on the coinage of r[illegible] accrued. The Government of India put forward proposals for [illegible] Committee of a reserve in their despatch No. 302 of the 6th September 19[illegible] rupees as they Their idea seems to have been to keep the reserve [illegible] formation of such chest in India. The decision of the Secretary of [illegible] 00 (Appendix V., p. 109). despatch No. 232 of the 13th December 1900, App[illegible] d locked up in a special profits should be remitted to London and invested i[illegible] however (as given in his that since London was the place in which the Re[illegible] V., p. 126), was that the the occasion of the emergency against which it w[illegible] erling securities. It was held the best place in which to keep it.

28. For the first few years from 1901 o[illegible] would have to be applied on rupees were accordingly remitted home b[illegible] eing created, London would be investment, the gold being taken out [illegible] Reserve in exchange for the fresh[illegible] wards the profits on the coinage of securities purchased was also add[illegible] by the shipment of gold to London for the outset Consols only, but i[illegible] of the accumulations in the Paper Currency Loan Stock and other sto[illegible] y coined rupees. The interest earned on the investment seems to ha[illegible] ed to the Gold Reserve. These securities were at large holdings of on[illegible] n 1903 investments were made also in National War

29. In 1905 [illegible] cks, such as Local Loans. This extension of the area of further incr[illegible] ve been dictated at the time mainly by the desire to avoid too accumula[illegible] e security and to earn a better rate of interest.

that R[illegible] the sterling resources of the Government of India in London were st[illegible] eased by the shipment to London of 5,000,000 sovereigns out of the [illegible] ted stocks in the Paper Currency Reserve in India, to be held as part of [illegible] eserve in London. With a continuance of the favourable balance of trade these [illegible] cks of sovereigns had continued to increase, and the difficulties of the Government [illegible] ce 1899 had been, not in the direction of keeping exchange up to 1*s.* 4*d.*, but in [illegible] iding sufficient rupees to meet the demands of the public, which continued to [illegible] nd rupees rather than gold. The advantage of shipping these sovereigns to [illegible] n and keeping them there was that they could be used there, as and when [illegible] d, in purchasing silver, thus saving the three or four weeks' delay involved in [illegible] them from India at the moment when actually required.

[illegible] n 1906 the same difficulty in meeting the demands for rupees led to the [illegible] in India of a special reserve for this purpose outside the Paper Currency [illegible] At first this reserve had been held inside the Paper Currency Reserve in [illegible], and then in partly-coined rupees, but finally in 1906 the more natural [illegible] ding the reserve in fully-coined rupees was adopted. The fact that this [illegible] eeded in order to prevent the possibility of the exchange value of the [illegible] a premium over 1*s.* 4*d.* through a failure in the supply suggested that [illegible] e charged against the Gold Reserve by the simple process of holding [illegible] coinage of the rupees in the Reserve in the form of rupees in India [illegible] ting them into sterling held in London. The name of this Reserve [illegible] anged to the Gold Standard Reserve, which thenceforward con- [illegible] ns, one held in sterling securities in London and the other in

31. Meanwhile, the practice of shipping to London gold accumulated in the Paper Currency Reserve in India, either to form part of the Gold Standard Reserve or to be earmarked in London against the Paper Currency Reserve, was recognised to be needlessly expensive. The gold, it was seen, reached India in the first place at the cost of individuals, and then had to be shipped back to London by and at the cost of Government after the public had handed it on to the Government in exchange for rupees. By an extension of the practice of receiving gold in London in exchange for rupees in India, Indian Revenues could be saved the expense of shipping gold to London, and by the offer of remittances to the public in the form of Council Drafts could realise in the price paid for these Drafts a large part of the sums previously paid for freight and insurance on the shipment of gold to India.

32. Accordingly the practice introduced in 1898 of selling Council Drafts for gold in London and issuing notes against such gold in India was extended, and since 1904 the Secretary of State has kept open a standing offer to sell Council Bills without limit at the price of 1*s.* 4$\frac{1}{8}$*d.* When the demand for these Drafts is very strong and the Treasury balances of the Government of India are insufficient to meet them, they are met by the withdrawal of rupees from the Paper Currency Reserve in India against a corresponding deposit of gold in the Currency Chest in London, and if necessary by the withdrawal of rupees from the Indian Branch of the Gold Standard Reserve. The Government meanwhile purchase silver, if necessary, in London out of the proceeds of the Council Drafts sold there and ship it to India to be coined into rupees.

33. The price of 1*s.* 4$\frac{1}{8}$*d.* for Council Bills approximates to the normal gold export point from London to India, but is not at all times prohibitive of such export of sovereigns, and the India Office have not desired that it should be prohibitive; nor does it prohibit the export of sovereigns to India from Egypt or Australia. Accordingly, when sovereigns continued to accumulate inconveniently in the hands of Government in India, it was decided in 1905 to offer Telegraphic Transfers against sovereigns in transit from Egypt or Australia to India at rates of 1*s.* 4*d.* or 1*s.* 4$\frac{1}{32}$*d.*, calculated to make it worth the while of the owner of such sovereigns to divert them from India to London.

34. Under these arrangements it has not since 1905 been necessary, as a general rule, for the Government of India to ship sovereigns on their own account from India to London, except in the case of light coin; and remittances for the purpose of adding the profits on coinage to the Gold Standard Reserve or for adding to the gold earmarked for the Paper Currency Reserve in London have been made by means of the sale of Council Drafts. None the less gold continues to go to India in considerable quantities in busy seasons both in the form of bullion and in the form of sovereigns, and the accumulations of gold in the Paper Currency Reserve at such times continually threaten to embarrass the Government.

35. In June 1907 a Committee appointed by the Secretary of State to consider the question of Indian railway finance recommended (in an Interim Report) that 1,000,000*l.* out of the profits on the coinage of rupees in 1907 should be devoted to the provision of additional rolling stock and other improvements for Indian railways. They were led to this conclusion by a consideration of the urgency of the need for railway development and the impracticability of borrowing the extra sum needed at that date. They justified their proposal by the following review of the strength of India's resources against a fall in exchange, which we quote as throwing light on what may be regarded as the official view at that time of India's currency system:—

"The object of the Gold Standard Reserve . . . is to enable the Government "of India and the Secretary of State to meet their sterling obligations in the event of "a falling off in the demand for Council Bills. This reserve at the present time "consists of sterling securities of the market value of 12,310,629*l.*, together with a "sum of six crores of rupees (equivalent to 4,000,000*l.*) which is held in silver *in* "India to meet any sudden demand for coinage. In addition to the Gold Standard "Reserve, there is a large amount of gold (11,066,000*l.*, of which 7,705,000*l.* is held "in London and 3,361,000*l.* in India) in the Paper Currency Reserve, which could "be applied to the same object. Apart, therefore, from the six crores in silver, "there is at the present moment a fund of upwards of 23,000,000*l.* in sterling "securities and gold bullion which could be drawn upon in case of necessity."

36. The Secretary of State went beyond the Committee's recommendation and decided that for the future one half of any profits on the coinage of rupees should

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be used for capital expenditure on railways until the Gold Standard Reserve reached 20,000,000*l.* It was apparently contemplated that, after that total had been reached, the whole profits on silver coinage should be diverted from the Reserve. This decision was strongly criticised in India, where the recent diversion of 4,000,000*l.* of the Gold Standard Reserve from the function of maintaining exchange to the provision of a reserve of rupees had already been regarded with disfavour, and the Government of India, in a telegram dated the 24th June 1907, followed by a despatch dated the 8th August 1907 (Appendix V., pp. 158 and 160), urged that the portion of the Gold Standard Reserve held in sterling securities should be allowed to accumulate to 20,000,000*l.* before any further sums were diverted from it. The Secretary of State, however, proceeded to use 1,123,000*l.* of the profits of coinage for railway capital expenditure, and adhered to his decision as to the use of future profits. "The danger," he stated in a telegram dated the 2nd July 1907, "which you "allege of a fall in exchange I regard as illusory, having regard to the present "conditions of trade, the amount of securities in the Gold Standard Reserve, and of "gold in the Currency Reserve."

37. The events of 1907–8, however, modified the outlook, and before any further profits on silver coinage accrued, the decision to divert part of them was reversed in 1909 (despatch No. 82 of 2nd July 1909, App. V., p. 175), and the sum of 1,123,000*l.* diverted in 1907 is all that was actually appropriated to capital expenditure.

38. The events of 1907–8 also falsified the expectations of the India Office in regard to the maintenance of the favourable conditions of Indian trade, and for the first time since the rupee was fixed at 1*s.* 4*d.*, the Gold Standard Reserve and the other sterling resources of the Government of India had to be utilised to maintain exchange.

39. A partial failure of the summer monsoon in 1907, and the general monetary stringency all over the world which accompanied the American financial crisis in the autumn of 1907, caused the Indian exchange to become very weak in November of that year. The stock of sovereigns in the Paper Currency Reserve in India began to fall, their place being taken by rupees. The Government of India were asked by the Exchange Banks to sell telegraphic transfers on London at 15 rupees to the £, and, after consulting the Secretary of State, refused. Then the Government of India refused to give gold from the Paper Currency Reserve for export in larger quantities than 10,000*l.* to any one individual in one day, but continued to give gold for internal purposes; and as a consequence the exchange in Calcutta fell on 23rd November to as low as 1*s.* $3\frac{23}{32}d.$ British Postal Orders for 10,000*l.* and other large sums began to be bought as a means of obtaining remittance to London. Thereupon the Secretary of State urged the Government of India to give gold for export, and being unable to sell Council Drafts, released gold from the Paper Currency Reserve in London against the transfer of an equivalent amount of rupees from the Treasury balances to the Paper Currency Reserve in India. This action, and the action of the Government of India, who, following the advice from home, consented to give out gold for export, improved exchange, which had recovered by 3rd December 1907 to 1*s.* $3\frac{7}{8}d.$ in Calcutta. The suggestion of the Secretary of State that telegraphic transfers up to 250,000*l.* should be put up to tender by the Government in India at not less than 1*s.* $3\frac{23}{32}d.$ was not therefore immediately acted upon, but the Exchange Banks were informed on the 7th December that the Government, in the event of serious weakness in the exchange, contemplated offering for tender in India sterling exchange on London.

40. As the normally busy season went on, rates remained weak, and the sale of Council Drafts continued impossible; finally it was decided on the 4th March 1908 to make weekly sales in India of a certain maximum quantity of sterling bills at the fixed rate of 1*s.* $3\frac{23}{32}d.$, instead of telegraphic transfers by tender at not less than 1*s.* $3\frac{31}{32}d.$ as previously proposed, and on the 26th March 1908 such bills were first sold. Meanwhile the Secretary of State had taken steps to realise some of the securities belonging to the Gold Standard Reserve in order to have money ready to meet the bills sold in India. Bills continued to be sold freely in India from this date until, on 11th September 1908, the position of exchange appeared to have become sufficiently strong, and the Government of India announced the discontinuance of their offer.

41. In all, 8,058,000*l.* was withdrawn during this period from the Gold Standard Reserve to meet the bills, while a further sum of 933,749*l.* was temporarily borrowed from that Reserve and used to strengthen the India Office balances. The sale of Council Drafts in London naturally ceased during this period, but the India Office

kept themselves in funds, apart from this transfer from the Gold Standard Reserve, by the transfer of 4,530,000*l.* from the gold in the Paper Currency Chest in London (replaced, as already explained, by the addition of rupees to the Paper Currency Reserve in India) and by the issue of India Bills to the amount of 4,500,000*l.* to meet the deficit in revenue which accompanied the crisis in India. We shall return to these figures later, when considering the special question of the proper amount and disposition of the Gold Standard Reserve.

42. Since 1907–8 India has enjoyed a period of exceptional prosperity, and during this period the demand for remittances from London to India has been so strong as not only to call for the re-issue of the large stocks of rupees accumulated in India during the crisis of 1907–8, and thus incidentally to restore the Gold Standard Reserve in London to its former amount, but also to necessitate large coinages of fresh rupees in 1912–3 and 1913–4, the profit on which has gone to increase the Reserve far beyond the maximum point reached before 1907–8.

43. The only important developments affecting the Reserve since 1907–8 have been in the direction of making it more liquid. Partly owing to conditions affecting all gilt-edged stocks with no due date for redemption, and partly owing to a clearer perception of facts, the authorities responsible for the Reserve have reduced the holding of Consols and other similar securities, and have invested in preference in short-term securities, such as Exchequer Bonds and Treasury Bills. Mainly under pressure from the Government of India the Secretary of State has cancelled the decision of 1907 to divert one-half of the profits of fresh coinage, and has introduced (in 1909) the practice of holding part of the Reserve in the form of money lent out at short notice, whilst in 1912 he began to accumulate a portion in actual gold earmarked at the Bank of England. The total which the Secretary of State has expressed his intention so to accumulate is fixed at present at 5,000,000*l.* (India Office Despatch, No. 76, of 28th June 1912, App. V., p. 201).

(2) The Indian Currency System as it exists at present.

44. It will be clear from the above summary that the measures taken to maintain the exchange value of the rupee have been, to use the words of our reference, less in pursuance of the recommendations of the Committee of 1898 than supplementary to them. As already pointed out the Indian authorities duly carried out the recommendations of the Committee to make the sovereign legal tender in India, and to establish a Gold Reserve. But their first efforts to force the sovereign into circulation having failed, they abandoned the attempt actively to encourage the circulation of a gold currency in India, and, as a corollary of this change of tactics, they kept the Gold Reserve in London for use in support of exchange.

45. The investment of the Gold Standard Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the Currency Reserve, the establishment of the silver branch of the Gold Standard Reserve, the diversion in 1907 of money from that Reserve for capital expenditure and its use in 1908 for meeting drafts sold by Government in India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee. Thus, in spite of the fact that the Government adopted and intended to carry out the recommendations of the Committee of 1898, the Indian currency system to-day differs considerably from that contemplated by the Committee, whilst the mechanism for maintaining exchange has some important features in common with the suggestions made to the Committee by Mr. A. M. Lindsay. The system actually in operation has accordingly never been deliberately adopted as a consistent whole, nor do the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent this system is the result of a series of experiments.

46. But to state this is by no means to condemn the action taken or the system actually in force. Indeed, it is fairly certain that a too rigid adherence by the authorities since 1899 to any one preconceived course would have had unfortunate results. The experience gained from Indian experiments in currency from 1893 onwards, and the experience of British Colonies, such as the Straits Settlements, and of other countries, such as the Philippines, which have followed the Indian example, have thrown much new light on the working of currency laws. It is possible now, looking back on events in the light of this experience, to see that the present Indian system has close affinities with other currency systems in some of the great European

countries and elsewhere, but it was universally believed in 1893 and 1899 that what was being done in India was an entirely new experiment.* This being so, the Indian authorities exercised a natural discretion in interpreting the recommendations of the Committee of 1898.

47. But it is desirable that, in the light of experience gained since 1898, an attempt should now be made to review and restate the principles which should guide the authorities responsible for the Indian currency system. Although the first efforts actively to encourage the use of gold in circulation in India proved a failure and have not been repeated, many people in India still regard the recommendations of the Committee of 1898 as laying down the principles on which the currency system should continue to be developed. We have had it in evidence from one of the non-official witnesses (*Q.* 3977) that he personally does what he can to encourage the people with whom he comes in contact to use sovereigns rather than rupees, and the evidence which we have received shows the existence of a widespread belief both in official and in unofficial circles that a gold currency in active circulation is the final goal to be aimed at.

48. The crisis of 1907–8 was the first great test to which the Indian currency system, as developed since the date of the report of the Committee of 1898, was put, and the arrangements made for maintaining the exchange value of the rupee stood the test well. The sudden fall of exchange to 1*s.* $3\frac{23}{32}d.$ in Calcutta in November 1907 was due, not to any insufficiency in the sterling resources of the Government but to a temporary failure to utilise those resources properly. No one in either official or unofficial circles had any experience of the machinery required for meeting the crisis, nor had any plans been fully worked out in advance for dealing with such a crisis. As may be seen from the interim report of the Indian Railway Committee of 1907 already quoted, the India Office apparently believed that the sole, or at any rate the main, purpose of the Gold Standard Reserve was to meet the requirements of the Secretary of State in London when Council Drafts could not be sold, while the Government of India made the mistake of refusing to give gold from the Paper Currency Reserve for export, though allowing their gold to be drained away for internal uses. Both authorities thus failed to recognise the wisdom of the recommendation of the Committee of 1898 that the principal use of a gold reserve is that it should be freely available for foreign remittances whenever the exchange falls below specie point. But it is fair to add that the Committee of 1898 themselves seem to have believed that a cessation of the sale of Council Drafts combined with the use of funds from the Gold Standard Reserve for meeting the requirements of the Secretary of State in London would suffice to maintain exchange, without any provision of gold by the Government for private export.

49. These mistaken ideas were, however, very quickly rectified in practice, and the steps taken to restore and maintain exchange proved adequate. It is easy to see after the event that in this or that point a mistake was made, but, regard being had to the difficulties and the novelty of the circumstances, the final success achieved by the Indian authorities both in India and in this country must be recognised as a proof of the soundness of the currency scheme itself and of the measures ultimately taken for meeting the crisis.

50. The first lesson to be learnt from the experience of the last fifteen years is that the Indian currency system has not developed on the lines of the system adumbrated by the Committee of 1898, viz., a gold standard based on a gold currency in active circulation, such as the system in the United Kingdom is commonly held to be. On the contrary it was proved in the crisis of 1907–8 that the gold in circulation in India was of very little value for maintaining the exchange. The Indian system, as the crisis of 1907–8 revealed it, is, as we have said, more like the system advocated by Mr. A. M. Lindsay in 1898, viz., a gold standard supported by gold in reserve, with a currency for internal use composed mainly of rupees and notes. The chief

* But *cf.* Plato, Laws, Book V., p. 742 :—"[The citizens of the Ideal State] will require a currency "for the purpose of everyday exchange: this is practically indispensable for workers of all kinds, and "for such purposes as the payment of wages to wage-earners. To meet these requirements, the citizens "will possess a currency which will pass for value among themselves but will not be accepted outside "their own boundaries. But a stock of some currency common to the Hellenic world generally [*i.e.*, of "international currency] will at all times be kept by the State for military expeditions or official missions "abroad such as embassies, and for any other necessary purposes of State. If a private citizen has occasion "to go abroad, he will make his application to the Government and go, and on his return, if he has any "foreign currency left over in his possession, he will hand it over to the State, receiving in exchange the "equivalent in local currency."

difference between Mr. Lindsay's system and the present system is that, instead of the reserve depending mainly on the power to borrow in a crisis, an actual reserve of gold or sterling assets has been provided.

51. Experience has further shown that, though in origin and machinery the Indian currency system based on what is now known as the gold exchange standard is different from the currency systems of such countries as Russia, Holland, Japan, or Austria-Hungary, yet in actual practice these latter systems are not very different from that of India. In these countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's Gold Standard Reserve is held in London.

52. A third lesson which the crisis of 1907–8 teaches is the desirability of formulating in advance and giving publicity to the policy which it is intended to pursue in a crisis. It is almost as important that the general public should have confidence in the determination of the Government effectively to use their resources to maintain the rupee at 1*s.* 4*d.*, as it is that the Government should have the necessary resources for so doing.

(3) Internal Currency of India.

(a) *Gold in Internal Circulation.*

53. From time immemorial India has continually absorbed the precious metals. But in quite recent years gold has been imported into India in the form of bullion or of sovereigns in greatly increased quantities. Apart from imports of gold bullion, the absorption of sovereigns by the public for all purposes (hoards, circulation, and the melting pot) during the 12 years ending the 31st March 1913, that is, the excess of the net amount imported over the amount retained in the hands of the Government, somewhat exceeded 60,000,000*l.*, an amount little less in value than the new coinage of rupees during the same period. Between the 1st April 1909 and the 31st March 1913 the absorption of sovereigns by the public was close on 30,000,000*l.* (*see* Appendix I., page 21).

54. To what extent and how widely the sovereign has established itself as an actual medium of circulation, it is difficult to determine with any great degree of certainty. On the one hand, it is quite certain that a large portion of these 60,000,000 sovereigns is not in active circulation, and that in many parts of the country the public have shown a preference in currency uses for rupees (or notes). But there is undoubted evidence that in the last four years there has been a distinct increase in the use of the sovereign for purposes of currency in certain provinces and districts, such as parts of the Bombay Presidency and of the United Provinces, the Punjab, and Cochin in the Madras Presidency. Speaking generally, no district which wanted gold seems to have experienced in the last four years any difficulty in obtaining it.

55. In these circumstances it cannot be maintained that the public have been prevented from obtaining gold by the course pursued by the Government. On the contrary, the official policy has been to give the public whatever form of currency they wanted, and the only official preference for one form of currency over another which we can trace is, as already recorded, in favour of gold. Those, therefore, who advocate a gold currency for India, meaning by this the use of gold coins on an extensive scale for internal circulation, must take the responsibility of urging the Government of India to force upon the public more of a particular form of currency than they at present want. It may be added, at this point, that the majority of the witnesses heard by us were distinctly unfavourable to the coinage of a 10-rupee gold piece. There is little reason to believe that it would be any more popular as a medium of internal circulation than is the sovereign, while there are strong *primâ facie* objections to the introduction of a new gold coin slightly more expensive and less convenient than the sovereign, which has been gaining an ever-increasing range of general acceptability for the purpose of meeting payments outside India. On the other hand, in so far as a 10-rupee piece was successful, it would be likely to prove a more dangerous rival than the sovereign to the smaller denominations of notes.

56. Is it then desirable that the Government of India should urge or encourage the circulation of the sovereign? The chief arguments which have been adduced in favour of such action appear to be as follows:—

(i) That gold is a more convenient and portable medium of circulation than the rupee.

(ii) That a gold currency is a necessary step towards what may be regarded as the ideal currency, viz., paper backed by gold in reserve.

(iii) That some prestige attaches to the possession of a gold currency, whereas a silver circulation is the mark of less progressive peoples.

(iv) That a large amount of gold in circulation is a strong, and, in the view of some people, the only adequate support for exchange.

(v) That the constant mintage of fresh supplies of rupees is objectionable, and would be obviated by an increasing circulation of sovereigns.

(vi) That until India has a gold currency in active circulation, India will continue to possess an artificial and managed currency.

(vii) That India should be encouraged to absorb gold in order to protect the world in general from a further rise of prices due to the greatly increased production of gold.

57. The first argument is valid only in so far as concerns large payments which for any reason cannot be discharged in notes; but India must continue for many years to use rupees for payment of the small amounts which form the bulk of internal transactions.

58. On the second argument we would say that history gives no support to the view that a paper currency can only be reached after a gold currency has been in circulation. A paper currency, if readily encashable, is the most economical medium of circulation, and at the same time provides a readily available reserve of gold for foreign remittances.

59. The argument that some prestige attaches to the possession of a gold currency is chiefly due, we think, to a confusion between a gold standard, which has undoubtedly become in the last forty years the mark of a progressive people, and a gold currency, in the sense of a preponderating use of gold for the purpose of effecting internal exchanges. So far as the internal circulation is concerned, a widespread use of cheques is generally agreed to be the most progressive system. After this comes the use of notes, which compose by far the greater part of the currency of most European countries. The preponderating use of gold coin is not characteristic of a single one of the Great Powers of the world, and it may be said that the only country which really conforms to this ideal is Egypt, where the continual inflow and outflow of sovereigns is an economic loss to Egypt herself and a cause of recurrent inconvenience to the money markets of the world.

60. The fourth argument, that the encouragement of a gold circulation is calculated in the long run to strengthen exchange, is probably that which carries most weight, and has been supported before us, in one form or another, by several witnesses who were in a position to speak with some authority. It requires, therefore, careful consideration.

61. In the first place, some witnesses seemed to imply that, if gold were to be used in India to the same extent that it is, say, in the United Kingdom or in Germany, the exchange problem would have been largely simplified. We think that this view is mistaken. The ability of these countries to meet at all times their immediate foreign indebtedness depends on the central reserves of the banks of these countries, on the influence exerted by these banks on the other constituents of the money market, and on their bank rate policy. It is not possible to point to any occasion in contemporary history on which sovereigns in the pockets of the people have proved a resource on which to count for easing the situation when a monetary crisis threatens the Bank of England's gold reserve. So little are the authorities of the Reichsbank impressed by the value of gold in active circulation for the purpose of settling international indebtedness, that they have been lately engaged in an active policy of replacing some part of this gold by notes of smaller denominations than were formerly current, whilst the gold itself has been used to strengthen the central reserve. It is useless to suppose that the advantages of the existing monetary system of the United Kingdom can be obtained for India by imitating what is, perhaps, the least vital part of this system, namely, the use of sovereigns for that small class of payments which are made in actual cash, while

ignoring the nature of the complex banking and financial system upon which the stability of exchange really rests.

62. In the second place, it is important that advocates of a gold currency should be clear as to the scale on which they think it would be feasible and wise to introduce such a currency in the near future. If it is their desire and their intention that gold should be used in active circulation to the same extent that it is used, for example, in Egypt, then no doubt gold from circulation would be available for export in considerable quantities at times of depressed trade. For, in that country a large part, measured in value, of the total transactions, instead of a very small percentage, as is the case both in the United Kingdom and in India, is carried out with gold, so that a contraction in the amount of business is likely to release a nearly proportionate amount of gold for export. It order to attain, however, to this state of affairs in India, or even to approximate to it, it would be necessary to reduce the note issue to a comparatively insignificant position, and to withdraw from circulation, at large expense, no inconsiderable part of the existing circulation of rupees. If, however, the advocates of a gold currency contemplate only such an addition of gold to the currency as can be made through the gradual increase of the aggregate circulation, without detriment to the existing circulation of notes or withdrawal of rupees now circulating, gold must continue to occupy for a good many years to come no more than a subsidiary position in the currency system. We do not believe that exchange would materially benefit from the circulation of gold on this scale. There would still be so many rupees in circulation that a considerable quantity could be spared at times of depressed trade, and it would be rupees which, as at present, would flow back into the hands of the Government at such times. All experience goes to show that, so long as the public have the option of making payments in tokens or in gold, it is the surplus tokens and not the gold in circulation which will seek an outlet at a time of weak exchange; and this will continue until the supply of tokens has been so far contracted that they are no more than sufficient for the ordinary business in the transaction of which coins of a low denomination are alone convenient. Thus it is a mistake to believe that to have 10 or 20 per cent. of the total active circulation in the form of gold means 10 or 20 per cent. of the advantages, such as they are, of having nothing but gold in circulation. During the crisis of 1907–8, while 4,179,000*l.* in gold was withdrawn by the public from the Paper Currency Reserve, only 250,000*l.* was exported on private account. We do not believe, therefore, that the circulation of gold on a moderate scale only would materially reduce the liabilities which Government ought to be prepared to meet.

63. In the third place, it is of great importance to consider from what source any gold which may find its way into circulation is likely to come. If the gold merely takes the place, not of notes or of rupees now circulating, but of new rupees which it would be necessary otherwise to mint, the effect is to diminish the strength of the Gold Standard Reserve by the amount of the profit which would have been made from the new coinage. This would bring to an end the natural growth of the Gold Standard Reserve (except in so far as its present funds might be invested and earn interest), and it is very improbable that so moderate a public circulation of gold as could possibly be obtained in this way would be as valuable in supporting exchange as gold, even though of a less aggregate quantity, in the Gold Standard Reserve. But it has to be remembered that India's demand for additional currency has been exceedingly irregular; and it would be rash to base currency policy on the assumption that this demand will be large, on the average, over the period of years immediately in front of us. For if, on account of a falling off in the demand for additional currency or for any other cause, such as a greater success in the popularisation of gold than most of its advocates now anticipate, gold in circulation were to take the place of notes or of rupees now circulating, the necessary and immediate consequence of this must be a rapid depletion of the gold now held by Government in the Paper Currency Reserve. Now it must be conceded, and has in fact been acknowledged by most of the witnesses who have pressed for a gold currency, that, sovereign for sovereign, gold in circulation is less effective than gold in reserve for supporting exchange. The depletion, therefore, of the gold in the Paper Currency Reserve, which now serves as a substantial aid to the Gold Standard Reserve in the support of exchange, might gravely weaken the Government's position at a time of exchange difficulties; and the policy of popularising gold, so far from helping exchange, would have jeopardised it. Advocates of a gold currency are met, therefore, by the difficulty that the circulation of gold on a moderate scale only is of no substantial use, while, on the other hand, the circulation of gold on a large scale, at any time in the near

future, must necessarily be at the expense of the existing Reserves and, so far from increasing the gold in the country, must have the effect of making what gold there is less available for the support of exchange. Advocates of this policy have also to remember that every step in the direction of popularising gold makes it more likely that people will cling to the gold they have and seek to obtain what additional gold they can, on any occasion of crisis or general want of confidence.

64. The argument that the coinage of fresh rupees is objectionable and ought to be avoided is largely bound up with the argument just examined; for the possible danger to exchange of a very large circulation of tokens is the main ground of the objection. But this is a convenient place at which to point out that it is by no means certain that an increase of gold in circulation will be altogether at the expense of rupees. In many respects gold is a far more formidable rival to the note issue than to rupees, since for many purposes a coin of so high a value as the sovereign cannot possibly take the place of rupees, whilst experience elsewhere has shown that a public preference for gold, or alternatively for notes, is largely a matter of habit and custom. To habituate a people, therefore, to the use of sovereigns is almost certain in the long run to militate against the use of notes, even though at first the sovereign is able in some cases to obtain a vogue where, at present and immediately, this is not possible for notes. A people who have adapted their habits to the use of gold will not easily be won from them, so long as gold is easily available. Advocates of a gold currency have repeatedly told us in evidence that they by no means advocate gold in preference to notes, which they regard as a more desirable form of currency; but the policy they favour may have, nevertheless, the consequence they deprecate. There is, indeed, some evidence that the increased popularity of the sovereign in certain districts during the last two years has already hindered in some degree the growing use of notes. In his latest report (for 1912–3) the Head Commissioner of Paper Currency states (paragraph 59):—

> "In paragraph 44 the conclusion has been drawn that gold has replaced rupees to a large extent in the Punjab, and to a smaller extent in Bombay and the United Provinces also. The question now arises whether the increased use of gold has affected the note circulation at all. In the Punjab it is certain that the circulation of 5 and 10 rupee notes has been affected. The gross circulation of the 5 rupee note after nearly doubling in the three years 1908–9 to 1911–2 increased by ·5 per cent. only in 1912–3. The gross circulation of the 10 rupee note in 1910–1 was more than double what it was three years before. In the last two years it has increased by 1 per cent. only. These figures considered in conjunction with the large increase in the use of sovereigns in the last two years are irresistible.
>
> "In Bombay the gross circulation of the 10 rupee note after increasing by nearly 30 per cent. in the two years 1908–9 to 1910–1 has increased by ·6 per cent. only in the last two years.
>
> "On the whole, it may now be definitely stated that, but for the use of gold as currency, the circulation of the smaller currency notes would have expanded much more rapidly in the Punjab, Bombay, and the United Provinces."

65. This conclusion is corroborated by some interesting figures placed before us by the National Bank of India and by the Presidency Banks as to the percentage of their receipts and disbursements at various centres in the form of notes, rupees, and gold respectively (*see* Appendix XVIII., pp. 541, 542, and Appendix XLIII., pp. 724–726). It is remarkable how uniformly in districts where the use of gold is considerable the use of notes is below the average.

66. There remains the argument that without gold in active circulation India's currency system must remain a "managed" system, it being implied that a managed system is a bad system. The ideal with which this managed system is contrasted seems to be the system of the United Kingdom where fresh supplies of the only unlimited legal tender coins, the sovereign or the half sovereign, can be obtained at will by anyone who takes gold to the mint for coinage.

In our opinion this contrast is of no value. There does not appear to us to be any essential difference between the power to import sovereigns at will and the power to have gold coined into sovereigns in India. The only point of the criticism that India's currency system is managed in a sense that is not true of the currency of the United Kingdom lies in the fact that the rupee is a token passing at a value above its intrinsic value and at the same time is unlimited legal tender. It is true that it is not practicable even to consider the limitation of the amount for

which the rupee is legal tender. In this sense therefore the system must remain a managed one. But we demur altogether to the idea that because it is to this extent a managed system it must be a bad system. It is not, in fact, possible for the Government of India to manipulate the currency for their own ends, and they cannot add to the active circulation of the currency except in response to public demands.

67. With the argument that India should be encouraged to absorb gold for the benefit of the world in general we do not propose to deal. The extent to which India should use gold must, in our opinion, be decided solely in accordance with India's own needs and wishes, and it appears to us to be as unjust to force gold coins into circulation in India on the ground that such action will benefit the gold-using countries of the rest of the world as it would be to attempt to refuse to India facilities for obtaining gold in order to prevent what adherents of the opposite school have called the drain of gold to India. In any case these arguments (which it will be noted are mutually destructive) are irrelevant to the inquiry which we were directed to make and to the terms of reference, which confine us to a report on what is "conducive to the interests of India." They raise vast controversies upon subjects which are beyond our scope, while giving no reason for the adoption of either policy in India's own interest.

68. We conclude therefore that it would not be to India's advantage to encourage an increased use of gold in the internal circulation.

(*b*) *Proposed Gold Mint for India.*

69. It will be convenient to deal at this point with the question of the opening of a mint for the coinage of gold in India. This proposal has been recommended on the ground that it would facilitate a flow of gold to India and that the mere fact of gold being coined in India would give confidence in the permanence and stability of the policy recommended by the Committee of 1898. Both these considerations have lost much of whatever weight they originally carried. Gold has flowed freely to India in recent years without this stimulus and we doubt whether any more could have been attracted by mere facilities for coinage.

70. Nor do we believe that the opening of such a mint would be of value at this date in winning public confidence in the stability of the exchange value of the rupee. This consideration had its force in 1899 and 1900, but the experience of 1907–8, the growth of the Gold Standard Reserve, and the whole trend of policy and opinion since 1898, leave no doubt as to the determination of the Government to maintain exchange, and in so far as confidence in their power to do so is lacking, it must be secured by measures which will make a real and not merely an imaginary addition to the resources available for this purpose.

71. More recently the idea of a gold mint has been pressed on the ground that it would increase the amount of gold in circulation. Even if we thought this in itself desirable, we are unable to follow the supposed connection between the end in view and the means recommended for securing it. The people of India can obtain under present conditions as much gold as they desire for currency purposes. Indeed the more usual difficulty is that gold coin is in greater abundance in the Reserves than is required for internal circulation. But even if this were not so, the mere existence of a mint for the coinage of gold could not add to the amount of gold available for currency purposes, and the idea that such a mint would give India an "automatic" currency, in any sense which is not true of the existing power to import sovereigns at will, appears to us to be wholly without foundation.

72. Nor is it likely that the facilities for converting gold bullion into coin which such a mint would provide would have any appreciable effect on the amount of gold withdrawn from circulation or would encourage gold to come out of hoards in unfavourable seasons. It is quite true that at times of famine and distress gold must come out of hoards, but we see no reason for believing that the amount so forthcoming would be increased by the opening of a mint for gold. The public in any case would secure equal advantages if the Government of India were to renew the notification, withdrawn in 1906, of their readiness to receive refined gold at the Bombay Mint in exchange for notes or rupees.

73. In our opinion, if this were done, it would remove the only practical grievance which can be alleged against the present system in this respect and would render wholly unnecessary the opening of a mint for the coinage of gold. We recognise however that there is in some quarters a strong, though a by-no-

means unanimous wish, that such an opening should take place. The authority of the Committee of 1898 can be cited in its support and there is said to be a strong sentiment in its favour. We find it difficult to judge accurately of the depth and extent of this feeling. For the reasons already given we do not ourselves share it and we cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. If, however, the final decision be against the opening of a gold mint, we recommend that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms.

(c) *Conclusions.*

74. We have already stated that it is not to India's interest that further efforts should be made to encourage the circulation of gold as currency. We regard gold in circulation as wasteful, and we think that India should be encouraged to develop economical habits in matters of currency. In dealing with the paper currency system of India we shall make some suggestions in this direction, and any improvements in the banking facilities of India which tend to discourage the wasteful habit of hoarding the precious metals will be of great value to India. But while educating the people in the use of more economical forms of currency, it is important that the Government should continue to act on the principle of giving the people the form of currency for which they ask. We recognise that for many years to come a metallic currency will be the only suitable one for the vast majority of transactions in India, where over 90 per cent. of the people are illiterate and cannot be expected to use paper notes or cheques to any considerable extent.

75. There will still be opportunities for the use of gold coins rather than rupees in circumstances in which notes are not suitable and rupees are inconveniently cumbrous, and there will necessarily remain for a long period a considerable demand for gold coins for hoards of all kinds until the habit of banking takes the place of the hoarding habit as a means of securing and increasing savings. The line between gold in hoards and in circulation is an indefinable one, and the hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs, with which the Government of India have neither inclination nor power to interfere. Any attempt to refuse gold to meet these legitimate demands would be unjust and foredoomed to failure, and could only cause alarm and instability. The proper line of advance consists not in actively discouraging the use of gold for currency but in encouraging the use of notes.

76. To sum up, our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations.

(4) Gold Standard Reserve.

77. What then are the sterling resources of India for providing for the payment of India's external obligations? These resources consist of the Gold Standard Reserve, of the part of the Paper Currency Reserve held in gold or sterling securities, and of the India Office balance. This balance is, however, in normal conditions not more than is needed for working purposes, and may, therefore, be disregarded in any review of the resources permanently available to support exchange in a time of crisis.

78. We have already given a summary of the development of the Gold Standard Reserve since the date of its first inception. The principal criticisms directed against it as at present administered are to the location of the greater part of it in London, to its amount, to its composition, and in particular to the presence in a fund formerly designated the Gold Reserve and now the Gold Standard Reserve of a considerable sum in silver.

79. The experience of 1907–8 makes it clear that the Reserve is required not merely to meet the "home charges" of the Government of India at a time when an

adverse rate of exchange prevents the free sale of Council drafts, but also to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point. On the other hand, the Reserve is not required to provide for the conversion into sovereigns of the rupees in circulation in India. Gold is world's money, and India, like other great countries, needs gold less for internal circulation than for the settlement of external obligations when the balance of trade is insufficient to meet them. That being so, the aggregate amount of rupees in circulation has only an indirect bearing on the question of the Gold Standard Reserve. It is true that the Reserve is built up out of the profits on the coinage of rupees, but its object is not to secure the convertibility on demand of the whole of the rupees in circulation but only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling.

80. This being the purpose of the Reserve, its amount depends not so much upon the amount of rupees at any time in circulation as upon the growth of India's trade and the extent of the deficiency which adverse seasons or circumstances may at any time be reasonably expected to produce in the country's power to liquidate immediately its foreign obligations.

81. The total amount up to which the Reserve should be accumulated has been a much canvassed question from the first. Our view that the amount depends upon India's trade balance implies that there is no need to accumulate the Reserve beyond the point at which it will be sufficient together with other sterling resources to meet all reasonably probable requirements in a time of adverse trade. But this point is not capable of exact definition. As trade expands and wealth increases in India imports will expand as well as exports. But the larger the total volume of the trade the larger is the amount (though not necessarily or even probably the proportion) of the possible variation from year to year in the net balance in favour of or against India. If the habit of private investment in sterling securities were to assume considerable proportions, and if India had already invested largely in such securities, the consequent possession of large sterling assets by the public in India would in itself act as a reserve for the support of exchange.

82. But for the present the growth of trade and industry carries with it a continual increase in the possible demands on the reserve fund in adverse times. One of the most noticeable features in the crisis of 1907–8 was the fact that for some time after the crisis had declared itself imports from abroad, ordered in advance in times of prosperity, continued to pour into India, thus accentuating the adverse conditions resulting from the failure of the crops and the consequent falling off in the volume of the exports. This must always be the case, and the larger the trade the greater will be the adverse balance which by these circumstances may be created. The failure of the crops and the consequent reduction of exports are sudden in their origin and immediate in their effect. Exports fall at once, but imports continue to flow in under outstanding orders and cannot be checked till those orders are exhausted. In time the balance would restore itself, but in the meantime exchange would have collapsed. It is to maintain exchange in the interval before the balance of trade can right itself that the Reserve exists, and its resources must be sufficiently liquid to be used at once and sufficiently large to meet the most prolonged strain to which it may reasonably be anticipated that they might be exposed.

83. There is normally a very large net balance of trade in India's favour; but in the year from 1st November 1907 to 31st October 1908 the imports of merchandise, including gold and silver, exceeded the net exports by 1,190,000*l.* (*see* Appendix IV., p. 108). Such an occurrence in the case of India, with an expenditure of 20,000,000*l.* a year on revenue account, apart from capital outlays, to meet in London, indicates the necessity for a very large sterling reserve, and the fact that this net excess of imports over exports of 1907–8 followed on a net balance in India's favour of 31,010,000*l.* in the corresponding twelve months of 1906–7 shows the enormous extent of the fluctuations to which India's trade is liable. The fact that in this particular instance the balance was righted by the issue of gold (or sterling assets) to the extent of 18,000,000*l.* in London and India combined cannot be taken as a measure of the amount which might be required under different circumstances and with a larger trade.

84. The crisis in question was undoubtedly a severe one. Its main features were a failure of the summer monsoon and a partial famine, coincident with a world-wide financial crisis. But the famine was not the worst experienced in India, the failure of the monsoon was for one season only, and the storm centre of the world-wide

crisis was in New York and not in London. It is impossible therefore to take the crisis of 1907–8 as a measure of the maximum demand on the Reserve. A second failure of the monsoon in the following year would undoubtedly have added to the burden, even though the check upon imports and the effect upon prices resulting from the previous year's crisis would have done something to mitigate its evil consequences, whilst, if the storm centre of the crisis had been in London, the difficulty of realising large quantities of the securities in which the Reserve was then held might have been considerable.

85. We do not accept, therefore, the figure of 18,000,000*l.*, which was the measure of the demand made by the crisis of 1907–8 upon the sterling reserves of the Indian Government, as an adequate guide to the amount which may be required in a similar crisis in future. Experience of a second period of adverse exchange is necessary before it will be safe to prescribe with any degree of precision the proper magnitude of the aggregate sterling reserves.

86. There remains the question what part of the burden of supporting exchange ought to fall on the Gold Standard Reserve and what part on the gold in the Paper Currency Reserve. It is the declared intention of the authorities at present to increase the Gold Standard Reserve up to a total of 25,000,000*l.*, and then to reconsider the necessity of continuing to appropriate to it the whole of the income from its present sources of supply. Of the Paper Currency Reserve the gold earmarked in London (at present 6,100,000*l.*) is commonly regarded as a far more reliable support to exchange than the gold held in India, and as the part of which account ought primarily to be taken. We incline to the view that reliance ought to be placed on gold in the Paper Currency Reserve for the support of exchange only in so far and so long as the Gold Standard Reserve is not yet adequate to support the burden by itself. There is no great likelihood of this in the immediate future and we do not think, therefore, that it would be useful for us to attempt to lay down at present any hypothetical limit beyond which additions to the Gold Standard Reserve should cease. We are accordingly of opinion that, even after allowance is made for the earmarked gold in the Paper Currency Reserve, the suggested total of 25,000,000*l.* is insufficient.

87. Our unwillingness to set a limit to the accumulation of the Gold Standard Reserve, so far as this is due to profits on the coinage of rupees, is increased by the fact that otherwise Government may appear to lay themselves open to the charge that they can (if foreign exchanges be left out of consideration) provide themselves with as much money as they like for internal expenditure by the simple process of coining rupees without limit. We do not suggest that it is even conceivable that the Government of India would actually take this suicidal course. But at the same time it appears to us undesirable that any Government should be open to attack in this way if it is possible to avoid it.

88. And here it may be well to notice the suggestion made by one witness that the Gold Standard Reserve has been built up by means of great sacrifices on the part of the revenues of India. The word "sacrifices" appears to us to be out of place in this connection. In building up the Reserve India has not sacrificed revenue. The most that can be said is that revenue has not been artificially swollen by the appropriation in aid of ordinary expenditure of certain funds which were rightly and necessarily devoted to a special purpose.

89. While, therefore, looking beyond the immediate future, we hold that the Government of India ought to be alive to the possibility of the aggregate sterling reserves eventually reaching an unnecessarily high figure, we recommend that the whole profits of the silver coinage, together with any interest accruing from investments or loans made from the Gold Standard Reserve, should for the present continue to be placed to the credit of that Reserve, and that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the Reserve may have to meet than is at present possible.

90. The most suitable place for the location of the Gold Standard Reserve is, in our opinion, undoubtedly London, and in this view the majority of our witnesses concurred. London is the clearing-house of the world, India's chief customer is the United Kingdom, and London is the place where money is required both for the expenditure of the Secretary of State on India's behalf and for payment of India's commercial obligations to this country and the world in general. If the Reserve

were kept in India it would have to be shipped to London to be used. This would involve delay at a moment when immediate action is essential. The objections put forward to keeping it in London rest on the belief that the Reserve is regarded in London as being available to supplement the Bank of England's reserve. There is no foundation at all for this belief. We have no hesitation therefore in recommending that the whole of the Gold Standard Reserve should be kept in London.

91. It remains to consider the composition of the Gold Standard Reserve. We have already mentioned the fact that until recently the whole of the London portion of the Reserve was kept in securities, and none in gold. Circumstances have profoundly changed since 1899 when the Indian Currency Committee were able to speak naturally of keeping a reserve in gold without proceeding to consider whether "gold" meant sterling securities or actual gold. At that time it scarcely occurred to anyone to distinguish between Consols and cash. The crisis of 1907–8 resulted in the sale of a large part of the Consols and similar securities held on account of the Reserve. It was fortunate that these securities were disposed of with little difficulty and without greatly reducing their market price. It may be regarded as a further piece of good fortune that it was necessary to dispose of these securities at that date and that the fund was therefore not affected by the further depreciation in their capital value which has since occurred. Larger quantities of short-dated securities less liable to capital depreciation were acquired when the Gold Standard Reserve again accumulated, and the cost price of the Consols and similar securities actually held on the 31st March 1913 was only 5,886,280*l.* out of investments the cost of which was 16,906,561*l.* in all.

92. The Secretary of State had so far yielded at the latter date to the arguments of the Government of India as to hold 1,005,664*l.* in loans at short notice, and a sum of 1,620,000*l.* in gold earmarked at the Bank of England, this latter sum being the beginnings of a total sum of 5,000,000*l.* which he is gradually accumulating in this form.

93. We are of opinion that the actual gold held in the Gold Standard Reserve should stand at a much higher figure than 5,000,000*l.* In the existing circumstances of the London money market even the finest securities such as Consols can no longer be regarded as identical with cash in the sense in which they were so regarded fifteen or twenty years ago, and their realisation might involve such a loss in capital value and such an aggravation of a crisis which it would be India's direct interest to allay, as to make the holding of more than a comparatively moderate proportion of such stocks undesirable in the case of the Gold Standard Reserve. Short term securities such as Treasury bills, Exchequer bonds, and similar securities have this advantage over Consols that the chance of any big loss of capital on realisation is less; but these securities may not be always realisable in large amounts quite so quickly or readily as Consols, and their enforced realisation at a particular moment might, under certain circumstances, so aggravate an adverse situation in London as to increase India's difficulties and to injure Indian interests. In so far as such securities as Consols continue to be held in the Gold Standard Reserve, we would call the attention of the authorities to the consideration that to obtain an advance against such securities by pledging them might in some cases be a preferable alternative to selling them outright, since it might be possible to raise money in this way after it had become difficult to sell except at a very serious loss.

94. In any case, the realisation in a crisis of securities in large quantities, and even the calling in of sums lent out at short notice, are likely to cause some stringency in the London market, and if the exchange crisis in India which makes such realisation necessary is accompanied or directly caused by a financial crisis in London or reacting upon London, as is very probable, the difficulty of realisation may be accentuated, and the possibility of loss to India cannot be ignored. India should, in this respect, be as far as possible independent of London. Just as London must look to its own resources in such a crisis, and does not and cannot count on help from Indian reserves, so India should be in a position to defend its own financial position without undue recourse to the gold reserves of London. The Gold Standard Reserve is built up out of the fruits of the economy of gold. It is a necessary condition of such economy that an adequate reserve should be held against an exchange crisis, and it is right that such reserve should be sufficient in itself to meet the crisis and should not be dependent on conditions which India cannot control or on resources accumulated by another country to meet its own liabilities.

95. What then is the amount of actual gold which should be held on account of the Gold Standard Reserve? We do not think that it is possible to fix an amount which will hold good for all time. The amount of actual gold depends like the aggregate of the whole fund on a consideration of conditions which are constantly changing. We see no necessity for keeping the whole fund in gold, as is sometimes demanded. To do so would be, in our opinion, unnecessary and wasteful, and would take away from the Reserve an important source of future increase. On the other hand, we are clearly of opinion that the actual holding of gold in this Reserve has been and is insufficient, and that it is important to take immediate steps for its increase.

96. In our opinion, the best rule in present circumstances would be that not less than one-half of the fund should be held in actual gold when the total fund exceeds 30,000,000*l.*, and that a minimum amount of 15,000,000*l.* should be accumulated as rapidly as possible. If this rule is followed and a sum of not less than 5,000,000*l.* is usually kept in gold in London as a part of the Paper Currency Reserve, it will be possible for India in a time of exchange crisis to release in actual gold an amount equal to the amount of securities which it may be desired to realise, and at the same time to have a final reserve of gold left. So soon as circumstances render recourse to the Gold Standard Reserve necessary, the policy of the authorities should be to use both the securities and the gold, advantage being taken of the release of gold to facilitate the realisation of securities.

97. Taking the figures at the 31st March 1913, the total amount of the Gold Standard Reserve was:—

	£	£
Securities at market value - - - -	15,945,669	
Money lent at short notice - - - -	1,005,664	
		16,951,333
Gold deposited at the Bank of England - - - -		1,620,000
		18,571,333
Silver in Indian Branch: 6 crores at 1*s.* 4*d.* - - -		4,000,000
		22,571,333

98. The holding of silver in the Gold Standard Reserve has given rise to much criticism, and is responsible for much confusion and doubt as to the efficiency of the Reserve. If the proposals which we make in a later section in regard to the Paper Currency Reserve are carried out, it will be possible to exchange at once the 6 crores of silver for 4,000,000*l.* of gold, and we recommend that this should be done. Further, the Paper Currency Reserve will be able to take over from the Gold Standard Reserve at least 4,000,000*l.* of its securities in exchange for gold.

99. These transactions will at once raise the total amount of gold in the Gold Standard Reserve from 1,620,000*l.* to 9,620,000*l.* This figure is still much below the proportion suggested by us.* It should be further increased as opportunity offers for the revision of existing investments as well as by the addition of new money.

100. The gold transferred from the Paper Currency Reserve in India might continue to be held there for a time as part of the Gold Standard Reserve, but, as we are of opinion that London is the proper place for the Gold Standard Reserve, steps should be taken to transfer it to London as soon as convenient.

101. We have considered whether it would be desirable to make the Gold Standard Reserve the subject of statutory regulations. But there are disadvantages in restricting the freedom of Government in a crisis, and it is undesirable that the disposition and amount of the Reserve should be stereotyped until further experience makes it possible to forecast with greater certainty the nature and the extent of the calls which may be made upon it. We therefore do not recommend that the Gold Standard Reserve should be regulated by statute. But we advise that the Government should make a public notification of their intention to sell bills in India on London at the rate of 1*s.* $3\frac{29}{32}$*d.* whenever they are asked to do so (as was actually done in 1908, and confirmed in 1909), to the full extent of their resources. We believe that the knowledge that such exchange can be purchased at any time will do much by itself to inspire confidence, and so to reduce the actual demand for drafts on London, and to prevent that feeling of panic which is liable to accompany and to aggravate periods of financial strain. With the Reserve for the support of

* The figure 1,620,000*l.* is that of the gold held on the 31st March 1913. Considerable additions have been made to this total quite recently, while this Report has been under discussion.

exchange so strong as it will, we hope, prove if our recommendations are accepted, we do not think that there is any reason to fear that in undertaking this liability the Government of India would be in any danger of being unable to carry out their obligations.

(5) Paper Currency.

102. The Government Paper Currency System of India dates from 1862, in which year the previously existing notes of the Presidency Banks, which had only a restricted circulation, were withdrawn, and a Government monopoly of Note issue was established. The notes are in the form of promissory notes of the Government of India, payable in rupees to bearer on demand, and are issued in denominations of 5, 10, 50, 100, 500, 1,000, and 10,000 rupees. They are issued without limit at any paper currency office against rupees or gold. For the purpose of the note system, India is divided into certain circles, and (with the exception of the 5-rupee note which was universalised outside Burma in 1903) the notes were, until 1910, legal tender only within the circle of issue, and could be encashed as of right only at the head office of the circle of issue. In 1910 power was taken to make the notes universal legal tender throughout India and encashable as of right at the head offices of each of the circles, now seven in number, and under this power all the smaller denominations of notes up to and including those for 100 rupees have been universalised. Extra-legal facilities for encashment are given at most of the Government treasuries, and, in practice, notes are freely encashed there within reasonable limits. The growth of the gross circulation was slow. From 3·69 crores in 1862 it had reached only 15·77 crores in 1890. After that date the increase was more rapid, and of late years, especially since the partial abolition of the circle system, the circulation has expanded very fast. The figures are (in crores of rupees):—

Average of Year.	Gross Circulation.	Notes held in Reserve Treasuries.	Net Circulation.	Notes held in Government Treasuries other than Reserve Treasuries.	Notes held in Presidency Bank Head Offices.	Active Circulation.
1900–1 - - -	28·88	2·34	26·54	1·81	2·68	22·05
1906–7 - - -	45·14	3·66	41·48	1·99	5·56	33·93
1911–2 - - -	57·37	5·53	51·83	2·34	7·60	41·89
1912–3 - - -	65·62	10·71	54·92	2·52	7·01	45·39

103. The Indian system of note issue was avowedly modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and in its main features remains unaltered to this day. It was provided in 1862 that a metallic reserve should be kept against the whole of the notes issued with the exception of such amount not exceeding 4 crores of rupees as might be fixed by the Governor-General in Council with the consent of the Secretary of State. This amount was to be invested in Government securities The amount of the Reserve that may be invested has been increased by special Acts from time to time to 14 crores, of which a maximum of 4 crores may be held in sterling securities. The composition of the Reserve on the 31st March 1913 was as follows:—

Total Circulation.	Silver in India.	Gold in India.	Gold in London.	Securities.	
				Sterling.	Rupee.
68·97 crores.	Crores. 16·45	Crores. 29·37	Crores. 9·15	Crores. 4·00	Crores. 10·00

It will be seen that the securities now amount to a little over 20 per cent. of the total reserve. In spite of an addition of two crores to the securities in 1911, this is a much lower percentage than was usual in earlier years, the figures at the end of each year in which the successive additions to the securities have been made being—1871–2, 44·9 per cent.; 1890–1, 27·2 per cent.; 1896–7, 42·1 per cent.; 1905–6, 26·9 per cent.; 1911–2, 22·8 per cent.

104. In this country the intention of the framers of the Bank Charter Act of 1844 was to prevent the abuses attendant on the issue of notes without the backing of a metallic reserve by securing the retention in reserve of coin against every single note issued over and above a maximum amount which was allowed to be covered by securities. This system was for long believed to be the ideal of a note issue system. But in fact its result has been to reduce notes to a very insignificant position in the British Currency system. The complete inelasticity imposed by the Act of 1844 upon the currency of notes, an inelasticity which can only be modified temporarily and as a last resort by the extra-legal power assumed by Government of suspending the Bank

Charter Act in a crisis, has only been tolerated because of the discovery in the cheque system of an alternative means of obtaining an elastic paper currency, which could not be obtained through the note issue under the terms of the Act. The main paper currency of the United Kingdom now consists of cheques, and the gold reserve of the Bank of England, though nominally supporting a comparatively small note issue, is really the ultimate support of a gigantic currency of cheques and other credit instruments of which the notes of the Bank of England form only a small portion.

105. In India, at all events outside the Presidency towns, conditions have not as yet favoured any great extension of the cheque system or of credit instruments generally, and metallic currency and notes of small denominations remain the favourite and the only suitable currency medium with the vast majority of the public. But since the closing of the Mints to silver in 1893, the expansion in the trade and commerce of India has made the need for a more elastic currency increasingly felt, and the restrictions imposed upon the note issue system by the requirement of a metallic backing for all notes issued above a fixed maximum, which can only be altered by a specific Act of the legislature, have become increasingly inconvenient. Some elasticity has, it is true, been introduced, rather incidentally than intentionally, by the Gold Note Act of 1898 and the development of the system of sales of Council Drafts already referred to (para. 24), under which it has become possible for notes to be issued in India against money tendered to the Secretary of State in London. But so far as the Paper Currency system itself is concerned this elasticity is secured only by the earmarking of gold in London, which is equivalent to the export of gold from London to India; the expansion of the currency of India is thus at the expense of the gold reserves of London, and in some circumstances the resulting stringency in London is so disadvantageous to India as to make an expansion of the currency by this means actually undesirable.

106. Before considering the possibility and desirability of adding elasticity to the note issue system we must first examine, more particularly, the present location and disposition of the Paper Currency Reserve.

In our summary of events relating to the exchange value of the rupee we have explained how it came about that this Reserve was made a part of the machinery for receiving gold, both in India and in London, in exchange for rupees, for holding in India gold intended to be passed into circulation, and for acting "as a first line of defence," as it has been called, for the 1*s.* 4*d.* parity of the rupee. While the main object of the Reserve is to secure the absolute convertibility of the notes, the location of the Reserve and the proportion between the gold and silver in the metallic portion now depend on other considerations as well.

107. The holder of a note is entitled to receive payment for it in Indian legal tender money, that is in sovereigns, half-sovereigns, or rupees. As he usually prefers rupees and has a right to demand them, the first necessity is that sufficient rupees should be held in the Reserve to meet this demand. To meet demands from this and other causes during the busy season the Government consider that the stock of rupees in reserve should not be allowed to fall below 24 crores on the 1st November in any year, or 18 crores on the 1st May in a year of active trade (*see* question 9099). These figures have been evolved on the basis of experience and are periodically reconsidered. As six crores are at present held in the Gold Standard Reserve the minimum figures for the Paper Currency Reserve are 12 crores on the 1st May, and 18 crores on the 1st November. If the outflow during the busy season is so great as to threaten a reduction below 12 crores on the 1st May, or the inflow during the slack season is insufficient to build up a total of 18 crores on the 1st November, steps are taken to coin fresh rupees.

108. The total amount of gold in the Paper Currency Reserve naturally fluctuates inversely with the total stock of rupees in the same Reserve. When the rupees threaten to fall short, the gold accumulates, and it is by using the excess gold that the cost of silver for fresh coinage is eventually met. As already explained, the authorities endeavour, through the sale of Council Drafts in London, to secure that the gold should not accumulate in India to such an extent as to involve shipment back to London. In practice the amount of gold accumulated in India has, except when depleted by the exchange crisis of 1907–8, always tended to exceed the maximum demand for gold from the Reserve in India. The policy pursued in quite recent years has been to locate from about five to seven millions sterling in London, and only to secure the presence in London of further gold belonging to this Reserve when the money is wanted to purchase silver. This policy has been criticised by some of the witnesses who appeared before us. It seems to us, however, to be at present justified by two considerations. In the first place it is reasonable that for the purchase of silver some part of the Paper Currency Reserve

gold should be kept in London, as the principal source of supply: for this purpose no great amount is required. But, second, there is the maintenance of exchange to be considered. The facts are that the gold in the Reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India. In these circumstances, so long as the Gold Standard Reserve is insufficient by itself for the support of exchange, we think the policy is justified.

109. The present maximum for the securities in the Reserve is, as already stated, 14 crores. Until 1905 the whole of the securities held consisted of rupee paper, but the additions of two crores in 1905 and two crores in 1911 have taken the form of investments in sterling securities. This extension of the area of investment was made, partly with the object of not having too large holdings of a security which was likely to be depreciated by the same causes as would possibly entail a run on the Paper Currency Reserve involving their sale, and partly as an additional sterling support for exchange.

110. We are of opinion that considerable improvements can be made in the location and disposition of the Paper Currency Reserve.

In the course of our inquiry the suggestion has frequently come up for consideration that the Gold Standard and Paper Currency Reserves should be amalgamated. The overlapping which occurs between the functions of the two Reserves makes this suggestion attractive, and it is possible that an amalgamation may be found desirable in the future. But for the present we think that the balance of advantage lies in the maintenance of two separate Reserves.

A very conservative treatment of the Gold Standard Reserve may, however, in certain circumstances strengthen the position of the Paper Currency Reserve. A drain on the Gold Standard Reserve for the support of exchange alters, not its volume, but only its form; and when rupees have accumulated in this Reserve, as a result of providing gold for payments abroad, these rupees are available, if necessary, for transfer to the Paper Currency Reserve in exchange for sterling securities. Such a transfer would be financially sound from the point of view of both Reserves; and, provided that the rupees were only issued from the Paper Currency Reserve in exchange for notes previously circulating, the total reduction of currency would be no less than before. In the consideration of the Paper Currency Reserve, therefore, the increase of strength which would accrue to the Gold Standard Reserve, if our proposals under that head are adopted, ought not to be entirely overlooked.

111. We have already recommended that the six crores of rupees in the Indian Branch of the Gold Standard Reserve should be handed over to the Paper Currency Reserve, which is the more natural place for keeping a reserve of rupees. The minimum figures of 24 crores on the 1st November and 18 crores on the 1st May for the stock of coined rupees in reserve will be unaffected, but in future this stock will be entirely within the Paper Currency Reserve. 4,000,000 sovereigns should concurrently be transferred from the Paper Currency Reserve in India to the Gold Standard Reserve.

112. Our next recommendation is that the fiduciary portion of the Paper Currency Reserve should be increased at once to 20 crores. But instead of merely fixing this figure as a maximum, we propose that the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries *plus* one-third of the net* circulation for the time being. Under this proposal the invested portion of the Reserve will be at once increased by six crores. We recommend that this result should be effected by a transfer (at market value) of sterling securities to that amount from the Gold Standard Reserve in exchange for six crores of the gold now in the Paper Currency Reserve in India.

113. So long as the gross circulation exceeds 60 crores, it will be within the power of the authorities to increase the investments of the Reserve and we propose that the Government should have power not only to make such further permanent investments as they think fit but also to make temporary investments or to grant loans either in India or in London. In India such loans should be made to the Presidency Banks on the same terms as we propose hereafter in the case of loans from balances, while in London the Secretary of State should have power to lend out in the London market sums received in payment for Council Drafts sold against the Currency Reserve in the busy season so long as the total of the cash portion of the Reserve does not fall below two-thirds of the net circulation.

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* By net circulation we mean the gross circulation less the amount of notes held in the Reserve Treasuries, *cf.* para. 102.

114. We hope for the following advantages from our recommendations: (1) While the permanent addition to the invested portion of the Reserve will be no more than is justified by past practice and experience without in any way endangering the complete convertibility of the notes, the revenues of India will secure the profit earned by investing the amount now held idle in the form of gold in India. (2) There will be occasions, especially in the busy season, when it will be safe to lend temporarily sums which it would be unwise to invest permanently. The power to make such loans will, therefore, enable the Government to earn interest on sums which would otherwise lie idle needlessly, and will provide at the same time a much needed facility for a tempofary expansion of the currency in the busy season, by virtue of which the market may obtain some relief, though not at first, perhaps, a very great amount, from its recurrent stringency. (3) The power to make temporary investments in London on account of the Paper Currency Reserve will be a convenience to the Secretary of State in permitting him to sell Council Drafts against the Paper Currency Reserve, in anticipation of silver purchases or of any other cause, without the loss of interest and other disadvantages which might sometimes come about if he were compelled, without discretionary power, to utilise the entire proceeds of such sales in earmarking gold. (4) As the circulation of notes in India increases, it will be within the power of the authorities to increase as and when desirable either the permanent or the temporary investments of the Reserve or both without a special Act. (5) The power to make loans from the cash held against notes in the Reserve Treasuries will provide the Government with a useful alternative or supplementary means of counteracting some of the disadvantages arising from the existing Reserve Treasury system with which we deal in the next section of our report.

115. We think it eminently desirable that the use of notes in India should be encouraged by all legitimate means. With this object in view, we recommend that the Government should increase, whenever and wherever possible, the number of places at which the notes are encashable as of right as well as the extra-legal facilities for encashment. We think it would be desirable to universalise at once the notes of 500 rupees. With the experience so gained it may be found possible to carry universalisation still higher. We do not think that the extra cost of remitting specie from place to place to provide for the encashment of notes would, except at the outset, be appreciable, and we think that, in any case, it would be more than counterbalanced by the advantage of an increased circulation of the notes as a medium of currency.

116. In accordance with our general view as to the position of gold in the internal currency of India, the gold remaining in the Paper Currency Reserve in India will be used for meeting demands in India just as at present. The Government will not undertake to supply gold in all circumstances, but should be ready in normal times to supply gold for internal purposes up to the full extent of the resources of the metallic portion of this Reserve. But, as soon as an exchange crisis declares itself in the form of an effective demand for bills on London at 1*s.* $3\frac{29}{32}d.$, any gold in the Paper Currency Reserve in India should be given out only on such conditions as will secure its immediate export.

117. The amount of gold held at any time on behalf of the Paper Currency Reserve in London will be regulated according to the conditions of the metallic reserve in India. When rupees are plentiful and the stock of gold correspondingly small in India, the Secretary of State will hold not more than the amount of 5,000,000*l.* which we have allowed for as the normal amount of actual gold likely to be available in London outside the Gold Standard Reserve in support of exchange. In a time of crisis this sum of 5,000,000*l.* should be treated, not as the first line of defence for the exchange, as it has sometimes been called, but as standing behind the Gold Standard Reserve, especially the gold portion of it, so far as exchange is concerned, while serving also the important function of acting, together with and in support of the sterling securities in the Paper Currency Reserve, as a final resource for securing the convertibility of the notes in an internal crisis in India. Any additions to the gold held on account of the Paper Currency Reserve in London over and above the sum of 5,000,000*l.* should be regarded as temporary only, and used as and when required for the purchase of silver for coinage into rupees, the function of such additional gold being to maintain the internal currency of India and not to support exchange.

118. The following tables show in parallel columns the position of the Gold Standard and Paper Currency Reserves on the 31st March 1913 and the position as it would have been on the assumption that our recommendations had been carried out at that date, and will explain at a glance the effect which our recommendations would have upon the location and disposition of the Gold Standard and Paper Currency Reserves.

Gold Standard Reserve at 31st March 1913.

	Market Value. £
Sterling:	
Securities not due for early redemption	4,956,165
Securities due for early redemption	10,989,504
Sums lent out at short notice	1,005,664
Total invested	16,951,333
Gold deposited at Bank of England	1,620,000
Total in London	18,571,333
Rupees in India:	
Rupees in reserve in India, 6 crores, equals	4,000,000
Grand Total	£22,571,333

Gold Standard Reserve as proposed by Commission.

	£
Securities not due for early redemption (say)	2,456,165
Securities due for early redemption (say)	9,489,504
Total invested	11,945,669
Gold	*10,625,664
Grand Total	£22,571,333

Of the gold the greater part would at first be held in India, but would be replaced as circumstances permitted by gold earmarked at the Bank of England.

Paper Currency Reserve at 31st March 1913.

	Crores.	Crores.
Rupees		16·45
Gold in London	9·15	
„ in India	29·37	
		38·52
Securities at cost:		
In London	4·00	
In India	10·00	
		14·00
Gross circulation		§68·97
Amount of Notes in Reserve Treasuries		12·68
Net circulation		56·29

Paper Currency Reserve as proposed by Commission.

	Crores.	Crores.
Rupees		†22·45
Gold in London	9·15	
„ in India	‡17·37	
		26·52
Securities at cost:		
In London	†10·00	
In India	10·00	
		20·00
		68·97
The maximum fiduciary portion being one-third of net circulation = 18·76		
plus Notes in Reserve Treasuries = 12·68		
		31·44
And the actual investments being		20·00
There was available for temporary investment or loans		11·44

Total Amount of Gold in London as at 31st March 1913 in Gold Standard and Paper Currency Reserves combined as proposed by Commission.

	£
In Gold Standard Reserve (assumed to be all in London)	10,625,664
In Paper Currency Reserve (in London)	6,100,000
Total	16,725,664

* Viz.:—

	£
Gold already held	1,620,000
Gold received for securities transferred	4,000,000
Gold received for rupees transferred	4,000,000
Gold realised by calling in short loans	1,005,664
	£10,625,664

† 6 crores transferred from Gold Standard Reserve.

‡ Gold already held in India — 29·37

Deduct—

Transferred to Gold Standard Reserve in exchange for rupees and securities — 12·00

17·37

§ At this date the gross circulation was exceptionally large.

III.—BALANCES.

(1) Aggregate Balances.

119. We have now disposed of the questions of currency which we had to consider and pass to the second, or, as it may be called to distinguish it from what precedes, the financial branch of our inquiry. This has relation to the moneys of the State, and includes the amount and location of the Government balances as well as the method by which their distribution between London and India is arranged, that is to say, the system of Council Drafts.

120. In view of comparisons which are sometimes made between the total balances kept by India and by the Government of the United Kingdom, it is desirable to begin by drawing attention to the danger of basing arguments upon any such comparison. The general balances of the Government of India and the India Office balances do not correspond in any way to the Exchequer balance at the Bank of England as shown in the statement of revenue and expenditure published in the "London Gazette" of Tuesday in each week. They correspond more closely with the Government deposits as shown in the weekly statements of the Bank of England; but even here the comparison is inadequate, as the Indian Government's balances both in India and in London include considerable sums held on behalf of Indian railway companies, sums belonging to local and district boards for which the Government act as bankers, and many other items, for which no close parallel can be found among the items which go to make up the British Government's deposits at the Bank of England. The Indian total, also, includes large sums held as working balances at the various treasuries and sub-treasuries throughout India and Burma, as well as the balances at headquarters in India and in London, whereas, except for the small balance kept at the Bank of Ireland, the British Government keep practically only one working balance and that in one place only, viz., at the Bank of England. For all these reasons arguments founded on a comparison of the total balances of the two Governments must be used with great caution.

121. The next step in this part of our inquiry must be to determine the amount which it is essential for the Government to hold in London and in India respectively.

122. We are advised that the minimum working balance required in London is normally about 4,000,000*l.*, and looking to the large payments that fall due at the beginning of each quarter, we consider that this amount is not excessive. In India the standard balance is very much higher. The minimum balance, we have been told, with which the Government of India can work their transactions, is about 8,000,000*l.*; this minimum is reached normally in November or December; and, since between April and the end of the year there is a large net withdrawal from the Government treasuries, it is the practice to budget for an opening balance in each financial year of something over 12,000,000*l.*

123. This estimate of requirements is based on experience, and we have no reason to doubt its accuracy. It has naturally not been possible for us to examine in detail the working of the "Resource Operations" of the Government of India, that is, the machinery for keeping the various treasuries and sub-treasuries in India in funds, nor have we the knowledge required for undertaking such an examination. It is, however, clearly desirable that any Government should endeavour by all reasonable means to manage their collections of revenue and the amount of their balances from time to time in such a way as to cause as little inconvenience as possible to the money market. We therefore call attention to the importance of a periodic review by the Government of India of the amounts so held in order to secure all possible economy of balances and to take advantage of all fresh facilities for remittance which the growing development of communications and other modern improvements provide.

124. We have indicated that the normal figures for the closing balance each year are, in London 4,000,000*l.* and in India 12,000,000*l.*, making in all about 16,000,000*l.* Compared with these normal figures, the actual balances have been in recent years:—

	In London.	In India.	Aggregate.
	£	£	£
31st March 1908	- 4,607,266	12,851,413	17,458,679
„ 1909	- 7,983,898	10,235,483	18,219,381
„ 1910	- 12,799,094	12,295,428	25,074,522
„ 1911	- 16,696,990	13,566,922	30,263,912
„ 1912	- 18,390,013	12,279,689	30,669,702
„ 1913	- 8,783,970	19,293,131	28,077,101

125. The great excesses shown by these figures have naturally attracted attention, and in particular the very large balances which have been held in London have been the subject of much adverse comment. It will be clear, however, that the primary factor has been an excess in the aggregate of the Government moneys, which alone made it possible for the London balance to be so much above the normal. It is this factor, accordingly, that we propose first to examine, and we shall then proceed to deal with the distribution of the aggregate, and the location of a great part of it in London.

126. The first point to be noted is that the great rise in the balance as a whole has not been in accordance with the anticipations of the Government; on the contrary, each budget has provided for a reduction of balances to a figure not far removed from the normal, and each year the intentions of the budget have been defeated by an improvement in revenue or by a falling off in expenditure which were not foreseen at the time of its preparation. It would seem, therefore, that primarily the question is one of estimating, and we cannot but feel that in preparing their estimates of revenue the Government of India have erred on the side of caution. We are convinced, however, that, in the peculiar circumstances of India, this is an error on the right side, and that the consequences of too sanguine a forecast, perhaps committing the Government to premature expenditure beyond their real resources, and involving at any time the risk of a deficit, are much more serious than those which can arise from the occurrence of large surpluses. In the circumstances of such a country as India it is not safe to spend up to the hilt during a period of prosperity; there is everything to be said for a general policy of caution which utilises the increased resources of such a period to strengthen the financial position against the recurrence of bad seasons, and it is certain that the adoption of this policy in recent years has done much to secure Indian finance against vicissitudes in the immediate future. It is to be remembered also that in recent years the position of the opium trade, which hitherto has contributed largely to the Indian revenues, has been altogether exceptional. So uncertain in fact have been the prospects that recently the Government of India have deliberately estimated the receipts under this head at the figure which they were likely to reach under the least favourable circumstances, while specifically hypothecating in advance any surplus that might accrue over that figure to certain particular kinds of expenditure.

127. A further cause of the large figures reached by the aggregate balances has been the failure to spend up to the amount estimated on capital account. This feature is particularly noticeable in the year 1910–1, when over 3,000,000*l.* out of a total estimated outlay of 6,500,000*l.* in India remained unspent at the end of the year, and over 1,000,000*l.* was similarly left unspent in London out of a total of 6,250,000*l.* Much of the underspending is attributable to the Indian railway companies rather than to the Government authorities in London and India. Several witnesses have drawn attention to the general question of Indian railway finance, and have urged the importance of a settled programme of railway development, providing for three or four years in advance. The adoption of such a plan, if properly followed up in other respects, should undoubtedly reduce the underspending, but except in this connection this subject has appeared to us to fall outside the scope of our reference. Whatever the ultimate reason for this underspending may be, it is an important contributory cause to the size of the balance, because the probability of underspendings only becomes known late in the financial year, whereas the borrowings of the India Office to meet such expenditure have usually taken place some time earlier.

128. In the circumstances of the case we recognise that cautious estimating was in the main justifiable, though it was carried rather further than was necessary.

Even under normal conditions we have been much impressed by the difficulties of preparing a budget in India. The revenues of India, whether shown under railways or customs or directly under the head of land revenue, fluctuate to an extraordinary extent with the success or failure of the agricultural operations of each year, and these again depend predominantly on the south-west monsoon which spreads over the Indian continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March, and the Finance Minister accordingly has to prepare his estimates in ignorance of the most important factor on which the results of the year will depend. The late Finance Member of the Viceroy's Council, indeed, has described the framing of a budget as a gamble in rain. We would observe, however, that the description applies only because the budget is taken before the monsoon. It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has therefore been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January. There may be administrative difficulties in carrying this suggestion into effect, but, financially, it would be a great improvement. Criticism directed against the inaccuracy of Indian budgetting is not effectively answered by a reference to the difficulties which arise under present conditions. It has to be shown further that these difficulties cannot be removed by a change of date without incurring graver disadvantages, and we commend the question to the consideration of the Government.

129. When the excess of the aggregate balances is mentioned, however, the criticism which we have elicited from witnesses has been directed, not so much against the inaccuracy of recent budget estimates, as against the continuance of taxation which, it is alleged, was in fact unnecessary. With this second criticism we have in the circumstances no sympathy. If the budget anticipations had been more in accordance with results, it is true that they would have shown much larger surpluses, and they might have suggested the possibility of a reduction of taxation. But there are peculiarly strong reasons in India against temporary alterations in the scale of taxation, and it is clear that the finances of the country were faced in the near future by two circumstances, first the disappearance of the opium revenue, and second the inception of a large programme of new expenditure particularly on education and sanitation, which made it extremely improbable that a reduction of taxation, if sanctioned, could be maintained for any length of time. In the circumstances it was clearly better to follow the policy which was in fact adopted of making use of the additional resources provided by a period of prosperity, not for the reduction of taxation, but for the general strengthening of the financial position.

(2) Location of Balances.

130. We now pass to the question of the location of balances, a subject which has aroused much criticism. Government money, it is said, has been moved unnecessarily from India where it would have assisted business, and the London money market has had an accession to its resources at the expense of the country to which the money primarily belonged. To the extent of the normal working balances the location of Government funds has already been determined, and it is only the excess over these amounts which has now to be considered. With regard to this excess there are two principles to be observed. The first is that it is undesirable financially that a Government should borrow with one hand and lend with another; so that the first object to which any surplus should be applied is the reduction or avoidance of debt. The second principle is concerned with the relations of Government to the trader and the general taxpayer. It is implicit in the criticisms we have noticed that it was the duty of Government to help trade in India, but it is not clear whether in the opinion of the critics this should have been done even if it resulted in a loss of revenue in the shape of interest or in some other form detrimental to the general welfare represented by Government. On this point there can be no doubt that it is the general welfare that has to be preferred. It may be admitted that the Government should in money matters adapt themselves as far as possible to the requirements of trade, but they must clearly subordinate the interests of particular classes to the welfare and security of the whole.

131. We will endeavour to apply these principles to the recent conditions of India. If there is a debt outstanding which can be paid off, London is the place where a surplus balance should be located. The same considerations apply if avoidance be

substituted for reduction of debt. As far as the ultimate object is concerned, therefore, to which a surplus balance should be applied, we hold that it must come to London. So far, we understand, the critics of Government would agree, but they add that the balances were transferred to London prematurely and in advance of requirements. Granting then that the final application of surplus balances was satisfactory, the question which arises is one of their intermediate investment. This, on the second principle indicated by us, would appear to depend primarily upon the relative security and rate of interest obtainable in India and in London respectively; in other words, if the security were as good and the rate were as high in India, the Government would be well advised to keep their surplus money there; but, if the security were better or there were a prospect of earning more in the London money market, they should transfer their funds to this country.

132. In the circumstances of India, however, these are not the only factors to be considered. The surplus balances now under consideration naturally arise in periods of prosperity, when not only the revenues of the Government but the claims of India against other countries are expanding, and exchange is high. It is natural that the Government should take advantage of these conditions to transfer their money to London at a favourable rate of exchange, and the possibility of a loss in exchange if they defer action has always to be set against any advantage they may gain meanwhile by lending out their money in India at a higher rate of interest. Whether, therefore, we are considering the final or the intermediate employment of any surplus balance, it will be seen that strong reasons exist for transferring it to England.

133. We find no fault, therefore, with the course taken by Government in recent years, for, under the conditions hitherto laid down for loans in India, there was no effective demand for such loans and no use for the money in that country. If, however, the recommendations which we make as regards loans in India be approved, there will be new opportunities for the temporary use of a portion of this money in India, and the occasions, though not the extent, of transfer may have to be revised accordingly.

(3) Indian Balances.

134. We now proceed to an examination of the balances held in India. The balances of the Government of India in India are divided between the district treasuries and sub-treasuries, the branches of the Presidency banks, the head offices of those banks at Calcutta, Bombay, and Madras, and the Reserve Treasuries at these three places. The following figures showing the distribution on the 31st March 1912 illustrate the normal position of these balances at the close of the financial year :—

	£
In 270 district treasuries (including some 1,500 sub-treasuries)	5,790,700
In 36 branches of the Presidency banks - - - -	1,580,500
At the three head offices of the Presidency banks - - -	1,402,500
At the three Reserve Treasuries - - - - - -	3,506,000
Total - - -	£12,279,700

135. Certain fixed minimum sums are kept at the head offices of the Presidency banks under agreement with the Government, viz. :—

	£
At the Calcutta office of the Bank of Bengal - - - -	233,300
At the Bombay office of the Bank of Bombay - - -	133,300
At the Madras office of the Bank of Madras - - - -	120,000
	£486,600

These minima may be regarded as (speaking generally) part of the remuneration to the banks for work done for Government and compensation for the loss in 1862 of the privilege of issuing notes. In practice the Government of India keep considerably larger sums at these head offices, viz. :—

At Calcutta, 467,000*l.* to 533,000*l.*
At Bombay, 267,000*l.* to 333,000*l.*
At Madras, a little over 133,000*l.*

136. Branches of the Presidency banks are regularly used for the keeping of the Treasury balances in the comparatively few places where such branches exist, and the Government have made a practice of late years of offering to guarantee a fixed minimum balance for a period of five years as an inducement to the banks to open new branches and take over the district treasuries in the places where such branches are opened. But, except in places where such a guarantee is in operation, Government balances at the branches of the banks seldom exceed immediate requirements to any considerable extent, the Government's policy being, as a general rule, to draw any surplus balances to certain centrally situated treasuries and finally to the Reserve Treasuries. The balances at the head offices of the Presidency banks are not allowed to exceed certain fairly well-defined maxima, except temporarily and for special reasons. Thus, in practice, whatever surplus Government balances there may be in India at any time tend to be accumulated in the Reserve Treasuries.

137. The independent Treasury system is not an ideal one, and compares unfavourably with the practice prevailing in the United Kingdom and in most other countries of keeping Government balances at a bank. In the United Kingdom, as in India, a considerable proportion of the total revenue is collected in the first four months of the calendar year. The heavy collections of revenue which then take place undoubtedly have a considerable effect on the money market, but the trouble is minimised in two ways, first because the money collected is immediately deposited at the Bank of England, where it is available for financing the commerce of the country; and, second, by the device of Treasury bills for supply and ways and means, ways and means advances and deficiency advances, which enable the Government to tide over the lean period of the year by borrowing from the market sums which they repay as revenue accrues later on, thus maintaining some sort of equilibrium in the demands of the Exchequer upon the cash supplies of the nation. This is a device not practicable in India, where the resources of the money market are as yet too limited to enable the Government to rely on financing themselves through the lean months by borrowing. In India, therefore, the minimum balance of the Government must be sufficient for their wants and the money collected as revenue is necessarily under present conditions taken off the market and immobilised in the Reserve Treasuries.

138. The disadvantages of the system are accentuated by the special conditions of India, where business is subject to a seasonal tide of strongly marked character. That business it will be remembered is predominantly agricultural, and all the principal crops, whether jute or rice, cotton or wheat, or oil seeds are marketed in the autumn and winter. Thus every year there is a busy season with active trade and great demand for money, and a slack season when money frequently cannot be lent. Something of the same sort occurs also in the affairs of Government; and far more than the proportionate amount of the revenue is collected in the first few months of each calendar year. We have noted that the minimum balance is reached in November or December. From that point the balance begins again to rise, and by the end of March is normally 4,000,000*l.* higher than in December. This season of maximum collection of revenue coincides with the season of busiest trade, and thus it happens that, at the time when the market stands most in need of funds, the Government are taking off the market a sum of 6 or 7 crores not for the sake of immediate requirements but in order to meet disbursements during the slack season of the summer and autumn.

139. The figures of the closing balances in India on the 31st March 1913 are instructive in this connection. Instead of the normal balance of about 12,000,000*l.* the total balance was 19,268,200*l.*, which was distributed as follows:—

	£
In 270 district treasuries - - - - - -	6,590,500
In 35 branches of Presidency banks - - - -	2,198,300
In 3 head offices of Presidency banks - - - -	1,595,600
In 3 Reserve Treasuries - - - - - -	8,908,700
	£19,293,100

Close on 9,000,000*l.* was thus locked up from the market in the Reserve Treasuries as compared with about 3,500,000*l.* a year before, while only 3,752,100*l.* out of the total of 19,268,200*l.* was placed with the banks. Only a comparatively small portion of the 2,198,300*l.* deposited at branches of the banks can be regarded as readily

available in the money market, but as this money would for the most part necessarily be located in much the same places under any system, it may be counted as being at any rate more available for trade than if it had been in district treasuries. The causes which led to this state of things on the 31st March 1913 were mainly a sudden slackening off in the demand for Council drafts, unaccompanied by any noticeable slackening of internal trade in India, and a record surplus of revenue over expenditure. It appears to us that a system which leads in certain circumstances to the locking up of nearly 9,000,000*l.* during the busiest period of the commercial year, and 5,400,000*l.* more than under the same system was similarly locked up in the previous year, requires very strong justification.

140. We have said that Government cannot sacrifice the interests of the general taxpayer to the interests of trade. Nevertheless, we should be the first to recognise the immense importance of trade to the prosperity of the country and the revenues of Government. The principles now observed result in loans being granted from Government balances only in exceptional circumstances, and while there is a provision that Presidency banks may retain on payment of interest sums in excess of those which it is the practice to leave with them, this provision appears to have had little publicity and has not been acted upon. In effect we may say that the assistance rendered by Government to trade has so far been confined to the amount left at the headquarters of the Presidency banks.

141. At the same time there are those who hold that the disadvantages of the Indian system have been exaggerated. Two points must here be noted.

142. In the first place the view has been expressed that the bank rates ruling in India are not after all excessive. During the busy season these rates generally rise as high as 8 per cent., and in some years they have remained at that figure for a considerable time. Occasionally they have risen even higher. But this does not mean that the average bank rate in India is high. On the contrary, it is possible for firms and individuals who can offer good security to borrow money all the year round at an average rate of interest very little, if at all, higher than would be charged for similar accommodation in the United Kingdom. In these circumstances it is argued that there is no real ground for complaint and that trade can easily afford the higher rates of the busy season.

143. This view was expressed to us by several witnesses, including the representatives of the Exchange banks, but it was not generally shared by other witnesses. There is much to be said for the complete neutrality of Government in such matters, but complete neutrality, by which we mean the absence of influence one way or the other on the rates for money, is not practicable in India in present circumstances. The action of Government undoubtedly helps to create the annual stringency, and there is therefore at least a *prima facie* case for such counteraction as is possible to relieve it.

144. Second, it is said that the stringency in the Indian money market, so far as it is caused by the withdrawal of money by Government, is relieved by the sale of Council drafts, which again place the surplus held by Government at the disposal of trade. This is largely true, but it omits some factors of considerable importance. The demand for money arises in the first place from the necessity of financing the movement of crops up country, but Council drafts are taken only when the produce is ready for export; there is thus an important period during which the needs of the market are not met by this means. It is obvious also that the sales of Council drafts are affected by circumstances quite independent of the Indian money market; a high bank rate in London, for instance, or the holding back of produce in India for higher prices, may result in the demand for Council drafts being slack in the busy season, while revenue collections are as heavy as ever. In this case the money so collected accumulates in the Reserve Treasuries and remains locked up there. As an illustration of this effect we may point to the experience of last cold weather, to which we have already alluded, when there was a marked falling off in the sales of Council drafts, with the result that enormous sums accumulated in the Indian balances and at the same time the bank rate was high in all three Presidencies. Finally, even when Council drafts are being freely sold, a temporary surplus, as we have observed, is left in India during the closing months of the financial year which is not immediately required for Government purposes; and as far as this temporary surplus, at any rate, is concerned, the argument that the sale of Council drafts relieves the stringency caused by the action of Government has no relevancy.

145. We arrive, therefore, at the conclusion that the present methods of dealing with balances are open to criticism, and we proceed to consider what remedies can be suggested for the evil of which complaint is made. For the purposes of this inquiry it seems desirable to review the discussions which in the past have centered round the utilisation of the balances in India. From 1863 to 1876, the whole of the Government balances at headquarters were handed over to the Presidency banks. On one or two occasions, however, the Government were not able to obtain on demand the free use of the balances deposited with the banks, and the difficulties which they experienced led in 1876 to the establishment of the Reserve Treasuries. It was felt that a Government exposed in a peculiar degree, as the Government of India undoubtedly are, to sudden demands and unforeseen contingencies could not afford to lose control of their balances, and in addition it was urged that the system which was about to be superseded was wrong in principle. "Capital supplied by Government," observed the Secretary of State, "and not representing the savings of the community is a reserve "on whose permanence no reliance can be placed . . . . a political exigency "withdraws the adventitious resource, and the commerce which trusted to it finds "itself pledged beyond what its own resources can make good."

146. On the other hand, it must be mentioned that, in the correspondence which led to the establishment of Reserve Treasuries, the same authority said that it would be open to the Finance Department in India either to retain the reserve in the Treasury or lend it out for short terms on suitable conditions as to interest and security. The question of Reserve Treasuries and of loans from Government balances has been a subject of discussion from time to time ever since. In 1888, the Bombay Chamber of Commerce raised definitely the question of loans by Government in the busy season, pointing out that the Treasury balances are at a maximum at precisely the period of greatest demand for funds. The Government, however, held to the position which they had taken up in 1876; they referred to a paper by Sir James Westland, to show that their balances were not excessive and that the method of dealing with them was sound; trade, they thought, should depend on its own resources and systematic advances by Government in the busy season would tend to reduce the working balances of the country to an unsafe minimum with consequent risk of panic, to guard against which was an important object of the Reserve Treasuries. If advances were made below the published rate, they added, it would be difficult to confine the privilege of obtaining Government money to the Presidency banks; these banks would be tempted to speculative operations with State resources, allowing their own resources to fall below the limit of safety. The conclusion of Government, therefore, was that they should confine any assistance from the Treasury to loans through Presidency banks at the published rate of interest in relief of temporary stringency.

147. In 1898 the Bengal Chamber of Commerce renewed the proposal, pointing out that the question was not one of wholesale surrender of Treasury funds to the Presidency banks, but the discretionary disposal of them in periods of stringency. On this occasion the proposal had better success with the Government of India, for after some hesitation they proposed to the Secretary of State that it should be recognised as part of the ordinary business of management of the Treasury balances to lend money to the Presidency banks at 1 per cent. less than the declared minimum rate of interest during the months of January to May of each year. The Secretary of State, however, was unable to accept the recommendation of the Government of India. The effect, he thought, would be to interfere with the remittance to England at a favourable rate of exchange of the amount necessary for the discharge of the sterling obligations of Government—a point on which we have already touched and to which we shall return. Any general understanding of the kind proposed, he added, would induce trade to lean even more than it had done in the past on the assistance of Government instead of taking steps to enlarge the amount of loanable capital in the country. The grant of loans in India accordingly was made subject to the retention by Government of an amount sufficient to meet not only their disbursements in India but the probable amount of remittances to England. On this condition loans were permitted, but the Secretary of State thought that they should not as a rule be made below bank rate, and this rule in fact has been followed ever since by the Government of India. Our opinion on the various points raised in this correspondence will appear from what follows.

148. The most obvious solution of the problem would be to close the Reserve Treasuries and to place the whole of the Government balances in Calcutta, Bombay and Madras, with the head offices of the Presidency banks there, or, if the Government

attach great importance to having a reserve immediately under their control, it might seem enough to fix a maximum total, (say) 1,000,000*l.* or 2,000,000*l.*, to the amount to be held in the Reserve Treasuries, and to place the remainder with the banks. The banks would naturally be called upon to make a suitable payment to Government for such additional privileges.

Such a change would involve a reversal of the action taken in opening the Reserve Treasuries in 1876 and the following years. It does not, however, necessarily follow that the action then taken was injudicious. The Presidency banks have enormously expanded their business in the interval, and the proportion of Government deposits to private deposits would be very much smaller now than in 1876.

149. It remains true, however, that if this solution were adopted the proportion of the Government deposits to those of other customers would still be much larger than is usual in the case of any European Government, and there is certainly danger in allowing the somewhat restricted money market in India to rely too much on the use of Government funds. Moreover other difficulties would arise: for the Treasury balances and the Paper Currency Chests are closely inter-connected in the resource operations of Government throughout India; and there are some important questions as to the provision of funds in India for meeting Council drafts also to be considered in this connection.

150. The alternative to the closing of the Reserve Treasuries is that Government should make loans from their balances. This is the course which we recommend on the understanding that the amount of the loans is within the absolute discretion of Government, and that they are made only on good security and for short periods. At the end, however, of a discussion which has lasted for more than 30 years, the Government are not in the possession of any effective system of making such loans and the question is clearly one which deserves the most careful consideration.

151. It appears to us that this proposal has been prejudiced in the past by a failure to distinguish it from other proposals which we do not favour. This is clear from the correspondence of which we have given a resumé. The general argument which Lord Salisbury, as Secretary of State, used in his despatch of 6th May 1875 (Appendix II., page 32), against the use of Government funds as permanent capital, was relevant and effective against the system which till then was in force, of making over the central balances permanently to the Presidency banks, but it was employed at a later date by the Government of India as a reply to a suggestion for temporary loans during the busy season. Similarly in dealing with the same proposal when made by the Bengal Chamber of Commerce in 1898, Sir James Westland went back to the radical differences between English and Indian conditions which justify the Government of the United Kingdom in keeping their balances with the Bank of England, but make it unsafe for the Government of India to keep all their money with the Presidency banks, and he again suggested that the proper cure for stringency during the busy season in the Indian money market was the increase of banking capital. These considerations do not apply to the scheme which we are now contemplating.

152. The arguments which are still urged against the grant of loans in India are put forward partly in the interests of Government and partly in the interests of trade. The main arguments which are based on the interests of Government are two in number. In the first place it is said that the contingencies and sudden demands to which the Government of India are subject are so numerous that they cannot safely make loans out of their balances. It is true that the circumstances of the Government of India are such as to require a policy of great caution in financial administration. But the loans which we contemplate will not deprive the Government of the use of any portion of their balances for more than a short period, and they will be made only in the discretion of Government, and we cannot agree that the argument applies to loans of this kind.

153. Again, it has been urged that the policy of granting loans in India may interfere with the remittance of Government funds to England at the most favourable rate. To this argument it might be sufficient to reply that it is clearly not applicable in all circumstances; we need only refer once more to the conditions of the cold weather of 1912–3, when the demand for Council drafts was smaller than usual and it is clear that the question of exchange did not enter into the problem of disposing of the Indian balances. For such cases it seems essential that the Government should retain discretion to grant loans.

154. But we would go further, and suggest that even under normal conditions the problem of exchange may not present such difficulties as are sometimes anticipated. What is in the minds of those who urge this objection is that the grant of loans from the Indian balances will reduce the demand for Council drafts in the busy season when exchange is at its highest, and that, consequently, there will be a loss when the Secretary of State finds that he has to draw money to London at a less favourable season. It appears to us, however, that the effect of such loans cannot be to reduce the aggregate amount of Council drafts sold; at the most, it can result only in a shifting of the sales from one part of the year to another, and it is not clear that, if the exchange in consequence falls at one time, it will not be correspondingly improved at the other. To a certain extent, the number of bills might increase at the expense of telegraphic transfers, since the first are used more largely in the slack, and the second in the busy season; but against any slight loss caused in this way would have to be set the interest earned in the meantime on the Indian loans. The last Financial Statement of the Government of India noticed the tendency shown in recent years for the busy season to encroach on the slack, and this tendency would probably be strengthened by any reduction in the price of money in India during the months of heaviest demands. On this point, however, we have no wish to dogmatise, and we content ourselves with saying that, in our judgment, there is nothing in the exchange question which would justify the Government in a general policy of refusing loans in all circumstances.

155. On the other hand, there are two distinct advantages which the Government forego when they refrain from making loans. The first is the interest which would be earned on any surplus balance which may be held in India in excess of immediate requirements. The second is concerned with the permanent loans which Government raise yearly in the Indian market, with which we deal later.

156. The argument against the grant of loans in India which is based on the interests of trade is that the Treasury balances of the Government are a very uncertain quantity, that consequently the assistance rendered to trade by loans from these balances would be spasmodic, and that inconvenience or worse might result if on occasion it were necessary for Government to refuse the assistance to which trade had become accustomed. If it is sought, however, to apply this argument to temporary loans during the busy season, we are not impressed with its cogency. When that season of the year is reached, the results of the monsoon have been established and the Government can calculate the financial prospects for the next few months with considerable accuracy. Nor is it to be supposed that the continuance of the same amount of assistance year after year would be taken for granted. The progress of the revenue and expenditure of the Government is well known to the public; the banks themselves could generally forecast whether the Government were likely to be in funds. The outlook would be discussed from time to time by them with the Government, and they would not base their arrangements on the assumption that they would receive a loan without some assurance that the money would be available. The unexpected indeed may always intervene and the derangement of plans in that case would certainly prove inconvenient both to the Government and to the commercial world, but it does not appear to us reasonable that the fear of such a contingency should deprive the market year after year of the surplus funds of Government.

157. It was, however, in view of this objection that several witnesses made proposals for loans from the Paper Currency Reserve as a preferable alternative to loans from balances, on the ground that loans could be made with safety from that Reserve at times when the Government happened not to have surplus balances in India. There is a very close connection between the two alternatives, because the greater part of the amounts locked up in the Reserve Treasuries usually consists of Government notes. The figures for the 31st March 1912 and 1913 respectively were:—

	Amount in Reserve Treasuries.		Amount of Notes.
	£		£
1912 -	3,506,000 - -	(5.18 crores)	3,453,000
1913 -	8,908,000 - -	(12.68 crores)	8,453,000

Thus, 5,000,000*l.* out of the extra 5,402,000*l.* located in the Reserve Treasuries on 31st March 1913, as compared with 31st March 1912, consisted of notes. As the

fiduciary portion of the Paper Currency Reserve has hitherto been a fixed amount, the result of accumulation of a surplus balance in India has been to lock up an approximately equal amount of metallic currency in the Paper Currency Reserve.

158. It would accordingly make no practical difference to the Indian money market whether loans were made from the balances or from the Paper Currency Reserve, if the amounts lent were the same; and provided that due precautions are taken we think that both sources may be used for the purpose of loans. We therefore recommend that the Government should declare their willingness to grant loans from balances in India when it is in their power and interest to do so. We proceed to define the conditions and terms under which we think loans might be given.

159. There are three different ways in which the grant of a loan may become possible. In the first place, as already pointed out, the Government in the ordinary course hold an unemployed balance in India, namely, the difference between the true minimum working balance of November or December and the figure to which the balance is raised by the additions made to it from then onwards during the busiest months of the year, and there is no reason why normally some or all of this surplus, according to the circumstances of the time, should not be placed at the disposal of trade. Second, it may happen, as in the early months of 1913, that the Government of India's balances expand far beyond their usual dimensions; and here again it seems of distinct advantage to the parties concerned that Government should lend as much as they prudently may and as much as the commercial community can utilise. Finally, while recognising that the first duty of the Government is to secure the transmission of the necessary funds to London on favourable terms, we think that in some circumstances the Government might fairly consider whether some portion of the funds, which must ultimately be so transmitted, might not, without loss or inconvenience, be retained for a time in India.

160. We fully admit that at this point various considerations come into play. There is the question for instance to which we have already referred of the rate of exchange, and of the possibility that, if full use is not made of the earliest opportunities for remittance, difficulty may be subsequently experienced in transferring to London the money ultimately required there. It must further be remembered that the undertaking of the Secretary of State to sell Council bills without limit at 1*s.* 4$\frac{1}{32}$*d.* per rupee is of material importance in this connection. Then again there is the question of the comparison between the rates of interest obtainable in England and in India respectively, and of the amount which can be safely placed in the one country or the other.

161. But it does not seem to us that the various factors which have to be considered have in the past been fairly set against one another. Indeed a division of business between the Home and Indian authorities has been adopted which seems to us anomalous. The management of the balances in India, it is said, rests with the Government of India. On the other hand, the administration of Council drafts is recognised to rest with the Secretary of State. But it does not seem to have been clearly grasped that the two are inter-dependent. We have been told that the policy adopted with respect to Council drafts has in fact been to sell freely so long as there was a demand and so long as there were balances sufficient to meet them. In other words, it has been assumed that the proper place for any surplus balances is London. In the great majority of cases this may have been true, but no such general assumption can properly be made when the circumstances are constantly varying. The location of any surplus balances should be determined on a consideration of all the factors. It should be determined further in consultation between the Home and the Indian authorities, and the possibility of the grant of loans to the Indian market should always be considered.

162. The bulk of the evidence offered to us on the subject of these loans has been directed to such questions as, to what authorities should advances be made, what amounts ought to be granted or will be sufficient to prevent stringency and on what terms should they be allowed. With these questions we can deal quite briefly.

163. We think that in the first instance at any rate loans should be confined to the Presidency banks. As occupying a special place in relation to the Government, they are the natural recipients of such loans, and we have no doubt that through them any benefit in easier rates that may accrue will find its way to the other users of money. We observe that the representatives of the Exchange banks agree with this view.

All such loans should be secured by the deposit of securities of the Government of India or Port Trust Stocks or similar securities.

164. As regards terms it is clear that, if the objects which we have in view are to be achieved, the present conditions cannot be maintained. In the great majority of cases loans will be possible only when there is a strong demand for money, but we see no reason why the discretion of Government should be limited and loans allowed only in periods of stringency. In any case it seems undesirable to fetter the discretion of Government by making it a condition that no loans are to be granted until the bank rate has reached a particular point. Our attitude is much the same to the proposals frequently made, that loans when granted should be at a prescribed level, whether 1 per cent. or 2 per cent. below bank rate. We think the Government should enter into negotiations with the Presidency banks and lend to them if the terms offered are satisfactory.

165. The question how much may be needed to relieve stringency can only be solved by experience. The amount of the loans will be in any case what the Government, with due regard to all the circumstances of the time, can afford to make and the market can utilise. We do not conceal from ourselves that our general recommendations on this subject involve a considerable departure from previous practice, and may have far-reaching consequences. We advise therefore that in carrying out our proposals the Government should proceed with caution. It is desirable that the change from the old to the new should be gradual and that its effects should be carefully watched. The first steps must be tentative, and in the early stages the Government of India should keep their advances within easily manageable limits.

166. The ultimate effect of these loans upon the Indian money market will be somewhat similar to that which is produced in the United Kingdom by the system of temporary borrowings by Government during the summer and autumn, which are repaid to the market when revenue comes in during the winter. But there is an important difference between Indian and British conditions in this respect owing to the fact that the Government of India are constant borrowers, both in London and in India, for permanent capital expenditure on the development of India's natural resources. The Indian Government regularly go into the money market in India during the summer for a loan in the form of rupee paper. In accordance with the recommendation of the Committee of 1898 (para. 70), that the Indian Government should restrict the growth of their gold obligations, and in view of the well-known advantages of internal over external debt, it has been the recognised policy of the Government to raise in India as large a part as possible of the sums which they require to borrow each year.

167. We have had some evidence, however, to the effect that of recent years the Government's estimates of the amount that could be raised by loans in India have been unduly cautious. The late Finance Member of the Viceroy's Council himself stated in evidence that he had deliberately pursued a cautious policy in this matter. We think that the criticism that undue caution has been used is justified, though the amount involved may not have been very large. It is supported by the facts that at the moment the Government pay less for their borrowings in India than for what they raise in London, and that besides taking up the new issues of rupee paper India has in the last ten years been buying some of the holdings of this security in the United Kingdom.

168. In any case those who are qualified to speak on behalf of the Indian banking community are all agreed in stating that larger loans could be issued each summer in India, if some means were available for counteracting the stringency that recurs annually in the winter and early spring. The practice of making loans from the Paper Currency Reserve and from balances will certainly assist the Government in increasing their annual rupee loans in the summer. The banks would probably be glad to keep larger holdings of Government stocks, if by so doing they did not run the risk of having insufficient liquid resources in the busy season. For the last two years the rupee loan issued in India has amounted to three crores or 2,000,000*l*. If the Government could count on raising larger sums each summer in permanent loans it should be possible for them to reduce to an equivalent extent their estimate of 12,000,000*l*. as the amount of the closing balance required on the 31st March to tide over their summer and autumn requirements. As their capital outlay occurs mainly in the United Kingdom, they will thus be able to

release, in payment for Council drafts, some part of the amounts now locked up in the Reserve Treasuries during the busy season.

169. We call attention at this point to the evidence given by some witnesses to the effect that the requirements of the Government of India as regards the endorsements upon the rupee paper and the general form of this security militate against its popularity, particularly among small investors in India. Any reforms which will induce Indians to invest their savings rather than hoard them in metallic form are greatly to be encouraged. We therefore recommend to the attention of the Government of India the questions of the desirability of some relaxation of the present regulations in regard to rupee paper and of creating new forms of securities, such as Treasury bills, short term bonds, or stock redeemable within a moderate period, likely to be taken up by persons to whom rupee paper does not appeal.

(4) Sales of Council Drafts.

(*a*) *History.*

170. It will be convenient, before turning to the examination of the India Office balance in London, to consider the method of effecting remittances on Government account between India and London, viz., the system of sales of Council drafts. For convenience we use the word drafts to cover both bills and telegraphic transfers.

Sales of Council bills and telegraphic transfers on India by the Secretary of State in London are the central feature of the machinery by which the Indian finance and currency system is at present managed, and a correct understanding of the nature and objects of these sales is the key to the whole system. We have already had occasion to refer to these sales and their uses in several connections; we propose now to consider the system in detail.

171. The practice of drawing funds from India to meet the home charges by means of bills of exchange on India was inherited by the India Office from the East India Company. The present procedure is as follows:—On each Wednesday a notice is exhibited at the Bank of England inviting tenders, to be submitted on the following Wednesday, for bills of exchange and telegraphic transfers on the Indian Government authorities at Calcutta, Madras, and Bombay. The notice states a limit which the aggregate amounts will not exceed. The Secretary of State does not bind himself to allot the whole amount mentioned in the notice, and as a matter of practice does not accept any applications at prices lower than 1*s.* $3\frac{29}{32}$*d.* per rupee for bills and 1*s.* $3\frac{15}{16}$*d.* for transfers. The price charged for telegraphic transfers is ordinarily higher by $\frac{1}{32}$*d.* per rupee than that charged for bills, but when the Calcutta or Bombay Bank rate exceeds eight per cent. tenders for transfers rank for allotment with tenders for bills only if they are $\frac{1}{16}$*d.* higher. Allotment is made to the highest bidders and when the total amount tendered exceeds the amount offered allotment is made pro rata. When the tenders received on a Wednesday have been dealt with, the amount to be offered for tender on the following Wednesday is decided upon, the main considerations being the requirements of the India Office and the strength of the demand. "Intermediate" or "special" bills and transfers can be obtained on other days of the week at a price fixed by the India Office at not less than $\frac{1}{32}$*d.* higher than the lowest prices at which allotments have been made on the preceding Wednesday, the exact rate and the maximum amount of such "intermediates" being fixed for the week each Wednesday.

The arrangements made each Wednesday are laid before the next meeting of the Finance Committee of Council, usually on the same day, and subsequently before Council itself, for approval.

172. Up to the time of the closing of the mints to silver in 1893 this weekly auction of Council drafts was nothing more than a simple and effective means of laying down in London the funds required by the Secretary of State for home charges at as favourable a rate as possible. In times of active trade the Secretary of State sometimes took advantage of a favourable rate of exchange to bring over from India rather more than was needed to meet his immediate requirements, to the mutual advantage of the Indian revenues and of trade. But the system existed simply as a means of remitting to London so much of the Government balances as it was

desirable to make available in London. Its main justification lay in the fact that it was both effective and profitable to the Indian Government, and convenient to trade in providing a ready means of settling a large part of the debts due by people in this country (and elsewhere) to people in India for the surplus of exports over imports. Indeed it may be said that it is the large surplus of net exports over net imports which characterises Indian trade in all but abnormal times that makes the system of sales of Council drafts both possible and profitable.

173. With the closing of the mints to silver in 1893, the system of sales of Council drafts assumed new importance, and has been gradually extended in more than one direction. It was by a temporary cessation of the sale of Council drafts that the authorities first tried to force the exchange value of the rupee up to 1*s.* 4*d.* Then, when the rupee finally reached 1*s.* 4*d.* in 1898, under the Act No. II. of 1898 already referred to Council drafts were sold against gold set aside at the Bank of England as a part of the Indian Paper Currency Reserve, and paid for in India out of notes issued against such gold. The object of this action was no longer simply to lay down funds in London for the Secretary of State's home charges, but so to alter the location and disposition of the general resources of the Government of India as to provide a means in a time of great stringency, with the Calcutta and Bombay bank rates standing at 11 and 12 per cent., for quickly expanding the currency as an alternative to the shipment of sovereigns to India on private account when the Government of India had no surplus Treasury balances with which to meet Council drafts.

174. With the development of the Indian currency system on existing lines, and the continued demand for rupees rather than sovereigns for circulation, this new departure of 1898 was developed, and Council drafts came to be used as a means of avoiding the useless accumulation of sovereigns in the Paper Currency Reserve in India. Government had undertaken the obligation of providing rupees in India in exchange for sovereigns at the rate of 1*s.* 4*d.* per rupee. Instead of waiting for the sovereigns to be tendered in India, and accumulate there till they had to be shipped home at Government's expense to purchase silver for coinage into rupees, the Government, as already explained, found it profitable to offer to sell Council bills without limit of amount at 1*s.* 4$\frac{1}{16}$*d.* per rupee, thus receiving payment for the rupees in London instead of in India at a rate of exchange which corresponds roughly with the fixed value of 1*s.* 4*d.* for rupees in India. The money so received in London is either earmarked as a portion of the Paper Currency Reserve at the Bank of England or used to purchase silver with which to coin rupees to take the place in India of those issued to pay for the Council drafts. A similar train of events has resulted in the issue by the Secretary of State, as occasion requires, of notifications offering to purchase sovereigns in transit from Australia or Egypt to India.

175. Finally in 1909 and 1910, when the exchange crisis of 1907–8 was over, Council drafts were sold freely in order to obtain sterling in London in place of the large quantities of rupees which had accumulated in the Gold Standard Reserve in India through the sale by the Indian Government of bills on London during the crisis, these Council drafts being sold not to provide funds for home charges, but to bring back to London the Gold Standard Reserve fund; and it is by means of sales of Council drafts that the profits on the mintage of rupees, which necessarily first take the form of rupees, are converted into sterling in London, the rupees which represent the profits being issued in India to meet the Council drafts sold in London.

176. It will be seen that the considerations affecting Council drafts are now very much wider than the mere question of laying down in London the funds required for ordinary home charges. The transfer to London from the Government of India's balances of some 20,000,000*l.* annually for the home charges on revenue account and of some 6,000,000*l.* or more to meet capital expenditure remains the chief function of the sales of Council drafts; but if the expense and waste involved in the shipment of sovereigns from India to London on Government account is to be avoided, it is necessary for the Secretary of State to sell sufficient drafts, not merely to meet his own requirements on revenue and capital account, but also to satisfy the demands of trade up to such an amount as will enable the balance of trade in India's favour over and above the amount of the home charges on revenue and capital account to be settled without the export to India on private account of more gold than is actually required in India for absorption by the public.

(*b*) *Management.*

177. The system of Council Drafts has frequently been described as artificial, but within limits, which we shall indicate, it is perfectly natural and would apply whatever might be the currency system in force. The criticism, in fact, that the system is artificial arises chiefly, we imagine, from the fact that the exchange is transacted by the Government themselves, *coram publico*, and little would be heard of it if the Secretary of State's remittances were made through a bank.

178. On the general description of the system which we have given, there cannot, we think, be much disagreement. But differences of opinion at once appear when an attempt is made to define the limits within which its operation is justifiable. The procedure actually adopted, we have been told, in recent years has been to sell Council Drafts freely, that is to say, to sell as long as there was a demand and as long as it could be met from the resources of Government in India. This statement of the case, however, does not appear to enunciate clearly any principle, and if it is desired to lay down a rule for future guidance we must inquire what is really involved in it. The procedure indicated would seem to be based on one of two alternatives. It may be held, in the first place, that the proper location of the surplus balances of Government is in London, and that as soon as they accrue they should be remitted from India. With this aspect of the case we have dealt already. Or it may be said that it was necessary for Government to supply up to the limit of their power the demand of trade for funds in India, and this position has been taken by some of the witnesses in explanation of the large sales of Council Drafts in recent years. We have already said that we do not favour the view thus implied. The interests of trade are, indeed, of high importance, but it is not the business of Government to favour trade at the expense of general revenues.

179. On the other hand, we have been asked to consider various limitations on the amount of Council Drafts to be sold. Thus it has been suggested that the Secretary of State should never sell more than the amount of his home charges, or that he should restrict his sales to the amount entered in the budget estimates, or, again, that he should adjust the sales in such a manner as always to keep his home balance from rising much above the working figure of 4,000,000*l*. To limitations of this kind also we are opposed. The right view is that the extent of the sale of Council Drafts depends on the requirements of Government, whether immediate or prospective, for funds in England. It is true that this principle leaves the Government a wide discretion, and that they may not always exercise it wisely. Their action might then be criticised on the ground that they had brought funds to London prematurely: but this is beside the present point. The fact remains that, while in consequence of recurring surpluses over budget estimates, the London balance has been abnormally high for the last few years, no money has been brought home which has not been used or will not be used for Indian Government requirements in the United Kingdom.

180. On one hand, therefore, the interests of trade are in themselves no justification for sales of Council Drafts in excess of requirements as we have defined them; for if, to accommodate trade, the Secretary of State were actually to go beyond his own needs, it would mean that he would bring to London money for which he had no need and that sooner or later he would have to send it back to India. On the other hand, the attempt to limit sales in advance to any particular sum is arbitrary and unnecessary. The suggestions which we have received in this connection are based on the assumption that Government ought never to bring home more than their immediate requirements, but any such limitation of the discretion of Government would merely interfere with the economical management of their remittance business without securing any other advantage. Suggestions of this kind seem to be inspired by the feeling that the present system is artificial or that undue assistance is given to trade when sales are less restricted. So long, however, as the Government do not exceed their requirements these fears are groundless. If the Government were to exceed their requirements, they would lay themselves open to the charge of manipulating Government funds for the benefit of trade. Within the limits of those requirements the advantage given to trade is in no sense artificial: there is a corresponding advantage on the Government side, and both arise from that interchange of obligations and resources which forms the general basis of the Council Draft system.

181. From the general limits within which the system is sound we pass to a consideration of the rates at which Council Drafts should be sold. As things are

at present, the India Office make a practice of selling Drafts on every Wednesday throughout the year so long as the rate for bills is not below 1*s.* $3\frac{29}{32}d.$ This is done even if the India Office balance is high enough to dispense with this source of supply for the time being. Several witnesses have criticised this practice, and its justification is not very clear when there is no particular need at the moment for the proceeds of such sales. It is argued in favour of the practice that in this way the India Office are able to feel the pulse of the market and take advantage at once of any increase in demand. But this object could be attained by continuing the invitation for tenders weekly while refusing to sell at very low rates except when money is actually required.

182. Some witnesses, however, went further and urged that the Secretary of State should always sell at a fixed rate, say 1*s.* $4\frac{1}{16}d.$, or that he should never sell below par. We are opposed to these suggestions. With regard to the first proposal, we would observe that while the Government are very large dealers in the exchange market, they are not monopolists; and it seems doubtful if they could successfully stand out for any such rate at all times of the year. The increased uncertainty as to the regularity of sales which this policy involves would make it necessary to hold larger normal balances in London than would be otherwise required. The effect of the second proposal, whatever might be the lower rate adopted, would be to limit the range of variation of exchange. With the general object of this proposal we have some sympathy, since the range at present is extensive, and must discourage the free movement of capital between India and other countries. Nevertheless that range, depending as it does on the cost of freight and insurance to India, is the natural range, and any restriction of it would impose additional responsibilities on the Government, for which we find no adequate justification. We consider, therefore, that the Government should continue to follow the market rate, effecting their remittances whenever they find it profitable to do so. In other words, the propriety of the transactions of Government in the exchange market must be judged with reference to the urgency of their requirements and the rate obtainable.

183. In what we have said so far we have had in mind primarily the remittance of Treasury balances, but the same considerations apply also to Council Drafts sold for the purposes of the Paper Currency or Gold Standard Reserves. It has been stated that the system of selling Council Drafts to be met from the Paper Currency Reserve in India originated in the desire to assist trade when Government were unable to meet demands for remittance from their treasury, but it will be clear from what we have said that we do not regard this as a sufficient reason. The justification for such sales must be that, whether for the purchase of silver or for some other purpose, it is considered desirable to hold part of the Paper Currency Reserve in London. Similarly, in the case of the Gold Standard Reserve the sale of Council Drafts is proper in circumstances in which funds belonging to that Reserve have to be transferred to London. In either case the real grounds for remittance must be the home requirements of the Government.

184. We hold, therefore, that, even in the case of the Paper Currency and Gold Standard Reserves, the Secretary of State must have discretion to draw within the limits of what are termed the gold points at the rates obtainable when the remittance becomes necessary. An instructive example of the need of such discretion is supplied by the experience of 1909, when, after the crisis of the preceding two years, a large amount belonging to the Gold Standard Reserve had accumulated in India and was remitted home at a rate considerably below the par of exchange. It has been urged that it would be better when funds belonging to the Gold Standard Reserve are concerned to defer remittance till a rate above par can be obtained. But the first necessity at such a time may be to get the funds to London as soon as possible, in order that they may be available for use in case of any further disturbance of exchange, and we should be unwilling to limit the discretion of the Secretary of State in such circumstances.

185. The opinion is often expressed that, while ordinarily the question of rates may be treated on the lines which we favour, further considerations arise when the sales involve new coinage; and it is suggested that Council Bills should not then be sold below 1*s.* $4\frac{1}{8}d.$ The suggestion, however, seems to draw too sharp a distinction between the various funds of Government and the purposes to which they are applied. It is always possible, for instance, that the silver required for coinage may be purchased from Treasury funds at home, a transfer being made from the Paper Currency Reserve to the Treasury in India when this silver is shipped and becomes part of

the Paper Currency Reserve, and Council Drafts in that case would have to be paid for sooner or later out of the Treasury to make good the home expenditure. Moreover, the suggestion has in view only the gold point as between India and England, whereas rupees may have to be given in exchange for gold imported at various rates from Egypt and Australia and elsewhere. Since further coinage becomes necessary only in times of active trade, exchange naturally tends to be high when fresh coinage is required. It is desirable that sales for the purpose of new coinage should be kept as closely as possible to specie point (whatever that point may be at the moment): but we think it undesirable to limit the Secretary of State's discretion by rigid rules.

186. We sum up our views as follows:—We cannot agree that the India Office should make a point of not selling drafts in any circumstances below gold export point or below any arbitrarily fixed rate. The general policy pursued at present is, in our view, the right one, viz., to regulate the time and amount of the sales of Council drafts throughout the year according to requirements, so as to take full advantage of the demand for such drafts in order to lay down funds in London. Though the convenience of trade and the regulation of exchange are important considerations for the India Office in the management of the system, we think that in some of the explanations of it given to the public, too much stress has been laid upon this aspect and too little attention has been directed to the primary and by far the most important function of Council drafts, viz., the transfer to London from India of public funds to meet the requirements of the Secretary of State in London. This is true not only of those Council drafts which are met from Treasury balances in India, and serve simply to transfer part of the cash balance from India to London, but also of those which are met from the Reserves in India, since the object of the sales of these drafts is to lay down in London such portions of the two Reserves as the Secretary of State and the Government of India desire to locate in London, either permanently as in the case of the Gold Standard Reserve or the gold portion of the Paper Currency Reserve earmarked at the Bank of England, or temporarily as in the case of moneys belonging to the Paper Currency Reserve which are transferred to London for the purchase of silver for coinage. This is one of the points in which it is particularly important not to overlook the fact that the various funds concerned are, as we have said, really one single whole. If a broad view of the situation is taken, it can be said without departing from accuracy that Council drafts are sold for no other reason and to no larger amount than is necessary to meet the requirements, present or prospective, of the Secretary of State in London.

(5) India Office Balance.

187. We now turn to the examination of the London balance. The primary purpose of the India Office's balance in London is to provide ways and means for meeting the expenditure incurred in the United Kingdom by the Secretary of State on behalf of the Government of India. This expenditure now amounts to something over 20,000,000*l.* a year on revenue account alone, *i.e.*, on salaries, pensions, stores of all kinds, and interest and management of debt, and as the amount of Indian debt outstanding in this country tends to grow, this figure is at present increasing slowly year by year. In addition very large sums, estimated in 1913–4 at close on 9,000,000*l.*, are required for capital expenditure in London in connection with railways, irrigation works, &c., in India; and the repayment of temporary debt and the guaranteed debentures and bonds of Indian railway companies, whether the money for such repayment is found by fresh borrowing or not, makes considerable calls on the London balance.

188. This balance is fed mainly from two sources, the proceeds of the weekly sales of Council drafts and loans raised in London. There are certain direct sources of revenue which are of little importance, and a variant of the second source is found in the payments made into the balance by Indian railway companies out of the proceeds of the issue of guaranteed stock or bonds issued by or on behalf of those railways, the Indian system being that the Government are shareholders in most of the railways, and act as their bankers both in London and in India. The Secretary of State has a very considerable amount of control over the time and amount of such issues, which may accordingly be regarded for our present purpose as being in the same category with Indian Government loans raised in London.

189. As already stated, the normal balance required on the 31st March in each year in London is about 4,000,000*l.*, more than half of this being needed to meet

the necessary payments for interest on debt at the beginning of April. When the annual budget is drawn up the Government of India make an estimate of the amount of Council drafts that they will be able to meet from time to time throughout the year. The India Office on the basis of this estimate frame a ways and means budget for the home charges, and arrange to borrow in some form or other the amount required to balance their account. They usually frame their budget, unless for special reasons, so as to estimate for a closing balance at the end of the year of about 4,000,000*l.* If the actual closing balance of the year which is ending is likely to be very much in excess of 4,000,000*l.* they reduce their estimate of borrowings or increase their estimate of capital expenditure for the new year, so as to bring the closing balance of the latter year down to about the normal figure.

190. As the demand for remittance to India is active mainly in the Indian busy season, the greater part of the receipts from Council drafts can only be expected to accrue towards the end of the financial year. The borrowing contemplated in the budget therefore necessarily takes place before it is known how closely the actual receipts will agree with the estimates. Moreover, it is generally recognised that the London money market is more favourable to borrowers in the first half of the calendar year. The India Office accordingly borrow the amount budgetted for either in the first months of the financial year, or sometimes, when market conditions are favourable, as early as February or March in advance of the new financial year. Under existing conditions, therefore, it is impossible for the India Office to regulate their borrowings for the needs of the year in accordance with the surplus or deficit over estimate of their receipts from Council drafts. If, as has happened recently, these receipts exceed the estimate by 10,000,000*l.* or more, the necessary result is that the closing balance of the year largely exceeds the normal 4,000,000*l.* These excess receipts have been due entirely to the recurrence of revenue surpluses in India and their transference to London, with both of which topics we have already dealt. We need only observe, therefore, in regard to the recent accumulation of high balances in London, that a change in the date of the commencement of the financial year, such as we have suggested, would have the further advantage of enabling the India Office to fix the time and amount of their borrowings in London with a more accurate knowledge of their real requirements.

191. Some criticism has been directed against the India Office for not using a larger part of these balances for the discharge of debt. India being a constant borrower for reproductive capital expenditure, the policy of the Government has been, in our opinion rightly, to use their surpluses not in repayment of permanent debt but in the reduction or avoidance of fresh borrowing. We do not agree with those critics who would have advocated the repayment of permanent debt out of the large balances in the years 1910 to 1912, with the result that fresh borrowing would have been requisite soon after. As we have already explained, the continuance of such high balances was not foreseen by the India Office, which necessarily relied on the accuracy of the Government of India's forecasts.

192. But we are inclined to think that in their dealings with the temporary debt the India Office, like the Government of India, are open to the charge of being over-cautious We would instance in particular the renewal of 1,500,000*l.* of India bills in December 1910 and again in December 1911. The fact that the summer monsoon was over and the probability of some considerable surplus in the receipts from sales of Council drafts could be foreseen by that period of the year would have justified, we think, a less cautious procedure. Another particular instance of what appears to us to have been excessive caution is the flotation of a loan for 3,000,000*l.* in London in April 1912 when the market conditions were very unfavourable, regard being had to the size of the closing balance on 31st March 1912, viz., 18,390,013*l.*; and in looking into this transaction we have found some reason to doubt whether there is sufficiently close consultation between London and India as to the time and amount of particular borrowing operations. It is probable that in 1912 a larger amount than three crores might advantageously have been raised by a rupee loan in July and a smaller amount than 3,000,000*l.* by a sterling loan in London in April.

(6) Lending out of India Office Balance in London.

193. It remains to consider certain special features in the location and management of the India Office balance in London. Under an old-standing arrangement the India Office maintain a minimum balance of 500,000*l.* with the Bank of England

with which, under the Acts 21 & 22 Vict. c. 106, and 22 & 23 Vict. c. 41, the account of the Secretary of State in the United Kingdom is kept. A very small amount of cash is kept in the till of the Accountant-General at the India Office for daily needs, and some comparatively small amounts are generally held by sub-accountants of the India Office. The rest of the London balance is placed on temporary loan in the City of London.

194. The system of so placing the London balance dates from the time of the East India Company, and is thus an old-established one. A list is kept at the India Office of "Approved Borrowers," admission to which is obtained by application to the Secretary of State's broker, who communicates the application to the India Office. It has always been recognised as the special function of the chairman of the Finance Committee of Council to advise upon such applications. These applications must be considered by the Finance Committee as a whole, but are now submitted after confirmation by that body for the approval of the Secretary of State in Council. Questions as to the retention of a name on the list are similarly decided. Only firms or individuals of high standing are admitted, and a fixed maximum is laid down in each case for the amounts that may be lent to each borrower. Loans are made in sums of 50,000*l.* or multiples of 50,000*l.* Borrowers are required to deposit at the Bank of England securities of specified kinds against the loans made to them, these securities being transferred into the name or possession of the Secretary of State at the Bank before the loan is made. The full list of approved borrowers as at the 31st March 1913 will be found in Appendix XI.

195. The actual business of finding borrowers is done by the Secretary of State's broker acting under the general directions of the chairman of the Finance Committee. His duty is to place the money at his disposal at the best rate of interest which he can obtain, subject to the general rules already indicated as to the approval of the borrowers and the securities deposited. The appointment of the broker rests with the Secretary of State. The present broker, whose family has long been connected with this particular business, was appointed in 1903 on condition of his becoming a partner in an old-established firm of money-brokers; the appointment was at first for a term of two years, but was renewed in due course, and is now held at the Secretary of State's pleasure.

196. We are satisfied that the system is on the whole well managed, and we have had it in evidence that only in two cases in the last 20 years have borrowers been unable or unwilling to repay their loans on the dates on which they were due, and that in both these cases the Indian Exchequer suffered no ultimate loss. We are, however, of opinion that the facilities for obtaining loans and the method of obtaining admission to the list of approved borrowers might with advantage be made more widely known in the City. And we think that some change is needed in the regulations governing both the kind of securities which are accepted and the amount of cover, if any, required for each of the several classes into which the specified securities are divided.

197. The classification (as revised and extended in February and April 1913) is as follows (*see* Appendix XI., pp. 310 and 312 to 314):—

SECURITIES AUTHORISED FOR ACCEPTANCE.

India Debentures, India Bonds, and Guaranteed Debentures of the several Indian Railway Companies, are taken at their par value.

Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value, instead of their nominal amount.

The following securities are accepted at their minimum market value, with a cover of 5 per cent., the cover being replaced if the value of the security falls during the currency of the loan:—

Any of the Parliamentary Stocks or Annuities of the United Kingdom.
India 3½ per cent., 3 per cent., or 2½ per cent. Stock, and Stock Certificates.
India Enfaced Rupee Paper.
Fully-paid Debenture Scrip of the Indian Guaranteed Railway Companies.
Any securities, the interest on which is, or shall be, guaranteed by Parliament.
Metropolitan Consolidated Stocks and Stock Certificates.
Metropolitan Police 3 per cent. Debenture Stock.
Metropolitan Water Board "B" Stock, and Stock Certificates.

London County Consolidated Stocks, Stock Certificates and Scrip.
Corporation of London Debentures.
Bonds or Bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act, 1900, 63 & 64 Vict. c. 62, and of British Municipalities with a population of 500,000 or upwards (at present Birmingham, Liverpool, Manchester, and Glasgow), provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted.

198. We think that the practice of lending upon India debentures, India bonds, and guaranteed debentures of Indian railway companies at their par value, although the market value may be under par, is unsound. We observe that in the two cases in which borrowers were unable to meet their loans when they fell due the securities deposited consisted of railway debentures of this kind. It was argued by the India Office witnesses in favour of the practice that it enables the Indian Government to make their issues of new sterling capital on more favourable terms than would otherwise be the case. We are unable to attach much importance to this contention, and in any case we hold that the result obtained does not counterbalance the obvious objections to the course pursued.

199. On the other hand, we are of opinion that the list of approved securities is unduly narrow. We understand that the India Office consider themselves precluded from accepting as security for loans securities transferable elsewhere than at the Bank of England. We think this is unfortunate. We should like to see the list enlarged to cover similar securities registered elsewhere, and it is a matter for consideration whether in addition some of the best Trustee stocks not now in the list might not be accepted to a limited extent subject to the provision of ample cover. In any case it would seem that the narrow boundaries of the existing list needlessly increased the difficulties of the India Office in finding borrowers for the whole of the large balances held during 1910 and the following years, and though we do not feel competent ourselves to draw up a complete list and set of rules, we desire to draw the attention of the Secretary of State to the evidence we have received on the subject and to the considerations set out above.

200. The usual periods for loans to approved borrowers are from three to five weeks, or occasionally six weeks, according to the calculations of the Accountant-General as to the term within those limits for which the money can conveniently be spared. In practice, when large sums are available for lending, the same borrower keeps loans continuously for very much longer periods, through their renewal from time to time after the expiration of the first term. But the prevailing rate of interest has to be paid at each occasion of renewal, and there is no hesitation in requiring repayment if a borrower is unwilling to pay the rate demanded. The criticism has been made that by leaving loans with the same borrower for long periods the India Office have in effect been lending for a long time at rates appropriate only to short-term loans. It would certainly seem that the limit of six weeks is adhered to a little too rigidly, and that some unnecessary caution is exercised in this matter. For instance, no allowance is made, in fixing the dates on which loans are to be repayable, for the receipts likely to accrue from the sale of Council drafts during the interval. We recommend that the present rules should be relaxed whenever a favourable opportunity for lending for any longer period up to (say) three months coincides with ability to spare the money for so long. But it is important that the money should in all circumstances be kept readily available, since it represents a cash balance which should not be diverted from its primary functions for the sake of earning slightly higher rates of interest.

201. We have already alluded to the difficulties which were met with in placing out with approved borrowers the whole of the large balance held by the India Office in London in the years prior to 1913. It is stated that the broker finds himself unable as a rule to place more than from 10,000,000*l.* to 11,000,000*l.* with borrowers on the list under the rules to which he is required to conform. From June 1909 to December 1912 the total India Office balance was considerably higher than 11,000,000*l.* The broker was accordingly directed to place the remainder on deposit with certain specified London banks. The deposit was usually for a period of two months, but sums belonging to the Gold Standard Reserve were occasionally deposited in this way for three months.

202. In view of the fact that two successive chairmen of the Finance Committee and another member of that Committee were also members of the directorates of banks with which such deposits were made at a time when they held their appointments

at the India Office, and that unfavourable comment has been publicly made on this association, we have examined very carefully into the circumstances attending the making of these deposits. We find no ground whatever for the suggestion that the connection between members of the Finance Committee and certain of the banks led to any kind of favouritism being shown to those banks. The deposits were never made at anything less than the best rate of interest obtainable at the time they were made. There was no hesitation in removing a deposit from one bank to another if advantage could be secured by so doing. There is, therefore, no ground for criticism of the way in which this duty was discharged. But we think it advisable to call the attention of the Secretary of State to the importance of avoiding as far as possible all occasion for criticism of this nature, though it may be founded on prejudice and ignorance of the facts.

203. We understand that the charges made by the Bank of England for various services as well as the services themselves are at present under consideration and form the subject of correspondence between the Secretary of State and the Bank. We therefore confine ourselves to observing that in our opinion the time has come for a general review of the whole subject of the relations of the Bank of England with the India Office.

204. Owing to the large balances of the last few years, the remuneration of the India Office broker reached an unprecedented figure. The scale on which it was calculated was thereupon revised. We are not convinced that the principle at present followed of paying him in proportion to the amount of money handled and the rate of interest earned is right. It can hardly be said that the call upon his time varies in exact proportion to the amount of money handled, and after all allowance is made for his skill and zeal in seeking the best rate of interest available, the rate actually obtained must depend much more on the conditions of the money market than on his exertions. We suggest that the working of the present arrangement should be watched. If the balances fall very low, or if they again rise very high, it may require reconsideration. If the principle of a sliding scale be maintained, it would probably be desirable to fix a maximum above which and a minimum below which it should not rise or fall.

IV.—FINANCIAL ORGANISATION AND PROCEDURE OF THE INDIA OFFICE.

205. We have already had occasion to mention and comment upon certain details of the financial organisation and procedure of the India Office in connection with the sales of Council drafts and the system of lending out the cash balance of the India Office in London, and at the beginning of our Report we recorded our very high opinion of the way in which the financial work of the Government of India and of the India Office is performed by the permanent officials to whom it is entrusted. We propose in this section of our Report to confine ourselves to a consideration of general principles.

206. The organisation and procedure of the India Office are conditioned by its legal constitution under a Secretary of State and a Council. This system is necessarily somewhat cumbrous in matters of detail, but it appears to work well on the whole, and must be accepted as the basis of any scheme of organisation which we can consider. Our inquiry will therefore be directed first to the machinery used for bringing financial questions before Council, that is, to the constitution of the Finance Committee of Council, and second to that part of the permanent staff of the India Office which deals with finance.

(a) Finance Committee of Council.

207. In considering the constitution of the Finance Committee, we have had our attention drawn to the proposals for a reorganisation of the India Council, outlined by the present Secretary of State in a speech made by him in the House of Lords on the 31st July 1913 after this Commission had begun their sittings. The Secretary of State expressly reserved detailed consideration of his scheme so far as finance is concerned pending the report to be made by us on this portion of our terms of reference. The main features of his scheme are a reduction in the numbers of the Council and the abolition or modification of the Committee system, for which would be substituted a system resembling that already adopted in the Viceroy's Council,

under which particular members of Council would be closely attached to particular divisions of the India Office. In regard to finance this would mean the supersession, in whole or in part, of the Finance Committee and the appointment of one member of Council as Finance member at the head of the Financial Department.

208. In this proposal, so far as it affects financial matters, we cannot concur. We are of opinion that the financial work of the India Office, which involves many technical and difficult problems requiring for their consideration a combination of Indian experience with an expert acquaintance with the London money market, is of a kind for which the Committee system is specially suitable, and we think that the continuance of the Finance Committee in some form is most desirable. It has been suggested that it would be possible to provide for the necessary expert knowledge by means of a Committee of which the members need not all be members of Council. But we see very serious difficulties in the way of any such arrangement. It would seriously impair the status of the members themselves and would deprive them of the opportunity which they now enjoy of obtaining that general knowledge of Indian government and Indian affairs without which they would lose much of their usefulness and nearly all their authority. So far, therefore, as financial work is concerned we recommend the continuance of a Finance Committee of Council.

209. The Finance Committee as now constituted consists of five members of Council, two of whom are bankers connected with large banks in the City of London. These two members have no direct Indian experience. The three remaining members have Indian experience and the members of the Committee represent, in addition to Finance, the Army, Public Works, and General Administration. Since 1880, if not longer, it had been, up to the year 1911, the established practice to have always one member, without Indian experience, who was actively engaged in business in the City, and another with experience of non-official finance, commerce, or banking in India. Besides this, until the retirement of Mr. Finlay in 1906, there was, as a rule, at least one member who had held high financial office in or under the Government of India. Of the last four chairmen of the Committee, three have been City men without Indian experience, and the fourth was one who had been appointed as a representative of Indian commerce, but combined with this qualification an expert knowledge of the London money market.

210. The ideal constitution of the Finance Committee would, in our opinion, include three members with financial experience, two representing respectively Indian official finance and non-official Indian commerce and banking, and one representing the London money market. We see no reason why this ideal should not, as a rule, be attainable; but, if it should occasionally be otherwise, we are of opinion that in all circumstances there should be at least one member with Indian financial experience either official or non-official. We think there are advantages in having a man of Indian experience as chairman of the Finance Committee, but in this matter the Secretary of State should have absolute discretion to appoint the person best suited for the post.

211. It appears to us, in connection with this subject, to be a matter for consideration whether the present pay and tenure of a member of Council are sufficient to attract the best class of financial advisers, more especially in the case of those possessing Indian experience. Until the year 1907 the salary was 1,200*l.* and the tenure of office was for ten years. The salary is now 1,000*l.* and the tenure is for seven years. Considering the immense importance to India of securing the best possible advice and assistance in these financial matters, we cannot help thinking that the advantages now offered may be inadequate. If that be so, they should be increased.

212. We should deprecate any rule which would have the effect of preventing men actively engaged in business in the City from joining the Council. We are aware of the objections which may be raised, and, as a matter of fact, have been raised, to the present practice; but we consider that they are far outweighed by the advantage of having as a financial adviser a man of the highest standing and repute in daily touch with the money market; and we should see with regret any restrictions which would confine the choice of the Secretary of State to "those who," to use a classical phrase, "have retired from business, or those from whom business has retired."

213. We are fully satisfied that both in the past and at the present time the City of London representatives on the Finance Committee have always kept the

interests of India clearly in view, and have performed the duties of their office solely with regard to the welfare of India. But recent political and social changes in India have led to an increasingly close scrutiny in India of the Government's financial administration, and have added very greatly to the amount and the importance of the criticisms which are directed in India against that administration. Moreover, these criticisms now find expression in the form of questions in the Legislative Council which have to be answered by the Government representatives. It appears to us to be hardly compatible with the new conditions in India that just at this time an alteration should have been made in the composition of the India Council and the Finance Committee, involving the omission therefrom of any representation of Indian financial experience, whether official or non-official. The result has been to give the representation of London City experience a position of undue prominence in the Finance Committee, which is, in our opinion, undesirable.

214. We understand that one of the principal objects of the proposals for the reorganisation of the India Council is to expedite business. We think that there is room for improvement in this respect in the financial sphere with which alone we are concerned. But we attach importance to the discussion of all large questions of finance in Finance Committee whenever time admits of it; and the powers of the Secretary of State in respect of the despatch of business are such that he can generally secure such discussion without any undue delay. The Secretary of State has already confided large discretionary powers to the chairman, and these will no doubt be continued, and will enable him to act, either alone or with the special sanction of the Secretary of State, whenever prompt measures are necessary. We desire, however, to make it clear that, subject to the conditions which we have laid down in this and the preceding paragraphs, we should welcome any changes, whether requiring legislative sanction or not, which would simplify financial procedure and prevent unnecessary delay in the consideration and determination of questions of a financial character.

(*b*) *Permanent Staff of the India Office.*

215. At the head of the Financial Department of the India Office, but subordinate to the Permanent Under Secretary of State and to the Assistant Under Secretary, is the Financial Secretary, upon whom fall the main burden and responsibility for the financial work of the office. At the present time it happens that the Assistant Under Secretary of State is an officer trained in the Financial Department and equipped with extensive knowledge of finance. He is thus able to offer useful advice to the Financial Secretary in the many cases in which a second opinion is desirable, and considerably to lighten his burden and responsibility. It is also possible to focus in the hands of the Assistant Under Secretary the consideration of financial questions originating in divisions other than the Financial Department and submitted to the higher authorities by the heads of those divisions. This arrangement has obvious advantages, and has served to relieve the Financial Secretary, who, until it was adopted, was undeniably overworked.

216. It appears to us that a return to the previous system, which threw the whole burden of supplying special financial knowledge and criticism upon the Financial Secretary, is, if not impossible, certainly undesirable. For the future, it has been suggested either (1) that the Under Secretary of State or the Assistant Under Secretary should have financial experience; or (2) that there should be two Assistant Under Secretaries, of whom one should have had financial training. As between these alternatives we are unwilling to express an opinion, believing that the choice must depend largely upon the varying circumstances of the time and on the material at the disposal of the Secretary of State. We are content to record our opinion that, in one or other of these ways, the burden of work and responsibility which previously fell upon the Financial Secretary should continue to be diminished, as it is under the existing arrangement. It has also been suggested that the Financial Department should be strengthened by the appointment of a second Financial Secretary, to whom business of a technically financial character should be specially allotted. We bring this suggestion to the attention of the Secretary of State.

The pecuniary value to India of the efficient performance of the financial business of the India Office is very great and would amply justify any extra cost in salaries that might arise from the adoption of our recommendations.

V.—STATE OR CENTRAL BANK.

217. We have made no reference to the State Bank question in the earlier passages of our Report, in spite of its frequent relevance, because we were unwilling to introduce, in passing, remarks which might appear to prejudge, one way or the other, a question which we were not prepared to discuss in detail. Many of our recommendations, notably those which relate to the maintenance of exchange, the position of gold in the currency, the system of budgetting, and the raising of loans by Government, are not appreciably affected by any decision which may be arrived at on the bank question. But others, especially those which relate to the elasticity and fiduciary portion of the note issue, to the custody, employment, and proper amount of the Government balances in India and London, and to remittance, are somewhat intimately bound up with the presence or absence of a State bank. The bank question has also a close connection with subjects not directly falling within the terms of our reference, such as the absence of a final banking reserve in India and the question of giving the Presidency banks access to London, the extension of co-operative credit in India, the improvement of banking facilities and the encouragement of sound banking in that country.

218. It has been represented to us that, under several of these heads, the difficulties and inconveniences which arise are largely contingent on the absence of a strong central banking institution, competent to manage the note issue, and so constituted as to be in a position to hold and manage the whole of the Government balances and to transact for Government other business naturally falling within the province of the Government's banker, such as remittance. In the lack of such an institution the Government of India's position, while not unexampled, is unusual. So long as the Government remain aloof from banking, so long as they maintain (to any important extent) an independent treasury system, and so long as the management of the note issue is kept outside banking, some features of the present system, which may be regarded as anomalous, will remain. We have endeavoured in the preceding parts of our Report to make such recommendations as will permit the continuance of these features with as little general inconvenience as possible. But those which relate to the note issue and to the employment of balances may be regarded, from one point of view, as palliatives rather than cures.

219. We have been naturally led, therefore, to give some consideration to the possibility of such more radical changes as are contingent on the establishment of a State bank—a proposal which presents at the same time some attractive features and some obvious practical difficulties. But we found from the outset in examining witnesses upon the subject of a State or Central Bank that the absence of anything in the nature of concrete proposals and even of any general agreement as to what was implied by the phrase "a State or Central Bank" made such examination difficult and unsatisfactory. It was arranged, therefore, before we adjourned for the summer holiday in August, that two of our number, Sir Ernest Cable and Mr. J. M. Keynes, should prepare a detailed scheme for their colleagues' consideration. We annex to our Report the memorandum submitted to us by Mr. Keynes, after collaboration with Sir Ernest Cable, in accordance with this decision.

220. We had previously received the memorandum on the subject of a State Bank or Central Bank submitted to us by Mr. L. Abrahams, C.B., with the concurrence of the Secretary of State. This memorandum was printed as Appendix No. XIV. to our Interim Report. The memoranda in question indicate most of the advantages and disadvantages attaching to the proposal on general grounds and the considerations to be borne in mind in dealing with it. It is unnecessary for us to recapitulate them here.

221. A study of these two memoranda makes much clearer the nature of the questions at issue; and the schemes proposed in them present *primâ facie* several attractive features. But most of the witnesses whom we have examined had not been in a position to consider or pronounce upon the specific proposals therein contained. It was not possible for us, therefore, to submit these schemes to a sufficiently searching examination without much delay in the presentation of our Report. We recognised, further, that such an examination would probably involve a visit to India and a careful study of the conditions on the spot, and we came to the conclusion that we were not fitted as a body to undertake this task. We do not feel ourselves, therefore, in a position to make recommendations, one way or the other, on the question of a State Bank.

222. But we regard the question, whatever decision may ultimately be arrived at upon it, as one of great importance to India, which deserves the careful and early consideration of the Secretary of State and the Government of India. We think, therefore, that they would do well to hold an inquiry into it without delay, and to appoint for this purpose a small expert body, representative both of official and non-official experience, with directions to study the whole question in India in consultation with the persons and bodies primarily interested, such as the Presidency banks, and either to pronounce definitely against the desirability of the establishment of a State or Central Bank in India at the present time, or to submit to the authorities a concrete scheme for the establishment of such a bank fully worked out in all its details and capable of immediate application.

VI.—SUMMARY OF CONCLUSIONS.

223. For convenience of reference we summarise our conclusions as follows :—

(i) The establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India. (Para. 8.)

(ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to, than in all respects directly in pursuance of, the recommendations of the Committee of 1898. (Paras. 7 and 44 to 46.)

(iii) These measures worked well in the crisis of 1907-8, the only occasion upon which they have been severely tested hitherto. (Paras. 48, 49.)

(iv) The time has now arrived for a reconsideration of the ultimate goal of the Indian Currency system. The belief of the Committee of 1898 was that a Gold Currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last 15 years shows that the Gold Standard has been firmly secured without this condition. (Paras. 47, 50.)

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation. (Para. 64.)

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal needs of India consists of rupees and notes. (Paras. 55, 76.)

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint: provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. (Paras. 69–73.)

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency. (Para. 73.)

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged. (Para. 76.)

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling. (Para. 76.)

(xi) No limit can at present be fixed to the amount up to which the Gold Standard Reserve should be accumulated. (Para. 86.)

(xii) The profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve. (Para. 89.)

(xiii) A much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about 10,000,000*l.* in gold can be at once secured. This total should be raised as opportunity offers to 15,000,000*l.*, and thereafter the authorities should aim at keeping one-half of the total Reserve in actual gold. (Paras. 93 to 100.)

(xiv) The Indian branch of the Gold Standard Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold. (Para. 98.)

(xv) The proper place for the location of the whole of the Gold Standard Reserve is London. (Paras. 90 and 100.)

(xvi) The Government should definitely undertake to sell bills in India on London at the rate of 1*s.* $3\frac{29}{32}$*d.* per rupee whenever called upon to do so. (Para. 101.)

(xvii) The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries *plus* one-third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. (Paras. 112 and 113.)

(xviii) We recommend the immediate universalisation of the 500-rupee note and the increase of the facilities for the encashment of notes. (Para. 115.)

(xix) The aggregate balances in India and London in recent years have been unusually large. This has been due mainly, though not entirely, to accidental causes and to the exceptional prosperity of India. (Paras. 125, 126.)

(xx) Caution is justifiable in framing Budgets in India, but has been carried rather further than was necessary in recent years. (Paras. 126 and 128.)

(xxi) A change in the date of the commencement of the financial year from the 1st April to the 1st November or the 1st January would probably enable the Government of India to frame more accurate Budgets. Such a change would also enable the India Office to fix the amount of their borrowings in London with closer regard to immediate needs. We commend this proposal for favourable consideration. (Paras. 128 and 190.)

(xxii) The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use, for this purpose or for actual reduction of debt, of the balances from time to time accumulated in his hands. (Paras. 130 to 133 and 179.)

(xxiii) But the recommendations which we make as regards loans by Government in India may lead to a revision of the occasions, though not of the extent, of transfers of money to London. (Para. 133.)

(xxiv) The independent Treasury system of the Indian Government is not an ideal one. It is partly responsible for the stringency which recurs annually in the Indian money markets. (Paras. 137 to 143.)

(xxv) We recommend that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks. (Paras. 150, 163, 164.)

(xxvi) In deciding upon the location of surplus balances, the Government of India and the Secretary of State should act in consultation, and, while the transmission of the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors including the possibility of utilising surplus balances for loans in India. (Paras. 159 to 161.)

(xxvii) In carrying out these recommendations, the authorities should proceed tentatively and with caution. (Para. 165.)

(xxviii) We recommend that the amount of the annual rupee loans in India should be increased as much as possible. The figures of recent loans appear to have been somewhat over cautious. We call attention to the questions of relaxing present regulations in regard to endorsements on rupee paper and of creating new forms of securities. (Paras. 167 to 169.)

(xxix) The Secretary of State sells Council Drafts, not for the convenience of trade, but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf. (Para. 186.)

(xxx) The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London balance was in no need of replenishment, but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of drafts sold or the rate at which they are sold, provided that it is within the gold points. The amount and occasion of sales should be fixed with reference to the urgency of the Government's requirements and the rate of exchange obtainable, whether the drafts are against Treasury balances or against the Reserves. (Paras. 181 to 185.)

(xxxi) There has been some excess of caution in the renewal of debt by the India Office during recent years. (Para. 192.)

(xxxii) The system of placing portions of the India Office balance out on short loan with approved borrowers in the City of London is on the whole well managed, but we draw attention to—

(*a*) The term for which loans are made.

(*b*) The desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers.

(*c*) Some defects in the list of approved securities and especially its narrow range. (Paras. 196 to 200.)

(xxxiii) There is no ground for the suggestion that the City members of the Secretary of State's Council showed any kind of favouritism in placing on deposit with certain banks, with the directorates of which they were connected, a part of the India Office balance at a time when it was too large to be placed entirely with the approved borrowers. But we call the attention of the Secretary of State to the desirability of avoiding as far as possible all occasion for such criticism, though it may be founded on prejudice and ignorance of the facts. (Para. 202.)

(xxxiv) We observe that in our opinion the time has come for a general review of the relations of the India Office to the Bank of England. (Para. 203.)

(xxxv) The working of the present arrangements for the remuneration of the Secretary of State's broker should be watched, and if necessary they should be revised. (Para. 204.)

(xxxvi) We record our high opinion of the way in which the permanent staff, both in India and in London, have performed the complicated and difficult financial duties placed upon them. (Para. 7.)

(xxxvii) We recommend a continuance of a Finance Committee of Council as providing the machinery most suitable for the work required. (Para. 208.)

(xxxviii) The Finance Committee should, if possible, contain three members with financial experience, representing—

(*a*) Indian Official Finance.
(*b*) Indian Banking and Commerce.
(*c*) The London Money Market.

In any case there should be at least one member with Indian financial experience. The absence of any representative of Indian finance on the Committee since 1911 has resulted in giving undue prominence to the representation of London City experience. (Para. 210.)

(xxxix) While we suggest that the changes recently proposed and now under discussion in the constitution of the India Council may require some modification in order to provide for the continuance of a Finance Committee of Council, we are in sympathy with the desire for expediting financial business, which is one of the objects in view. (Para. 214.)

(xl) The present arrangement under which the Assistant Under Secretary of State, having financial experience, is able to share with the Financial Secretary the responsibility for financial business in the India Office has many advantages. For the future we recommend that either (1) the Under Secretary or Assistant Under Secretary of State should have

financial experience as at present, or (2) there should be two Assistant Under Secretaries, of whom one should have financial experience. (Para. 216.)

(xli) We are not in a position to report either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early and careful consideration, and suggest the appointment of a small expert committee to examine the whole question in India, and either to pronounce against the proposal or to work out in full detail a concrete scheme capable of immediate adoption. (Paras. 221, 222.)

224. We desire to place on record our high appreciation of the valuable assistance which we have received from Mr. Blackett and Mr. Smith in the course of our inquiry. To Mr. Blackett in particular we have entrusted a great deal of extremely important work, and he has discharged the duties imposed upon him with great ability and unfailing courtesy and tact.

AUSTEN CHAMBERLAIN (*Chairman*).
FABER.
KILBRACKEN.
ROBERT CHALMERS.
ERNEST CABLE.
S. B. BROACHA.
J. BEGBIE.*
R. W. GILLAN.
H. N. GLADSTONE.
J. M. KEYNES.

BASIL P. BLACKETT,
Secretary.

Dated the 24th day of February 1914.

* Subject to note on p. 88.

ANNEXE TO REPORT OF ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

MEMORANDUM BY MR. J. M. KEYNES ON PROPOSALS FOR THE ESTABLISHMENT OF A STATE BANK IN INDIA.

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[*This memorandum was drawn up in the summer of* 1913 *by Mr. J. M. Keynes, in collaboration with Sir Ernest Cable, at the request of their colleagues on the Royal Commission. It retains a form originally designed with a view to the private use of the Commission rather than to publication, and in a few passages where its subject overlaps with that of the Report it shows the influence of some conclusions tentatively reached by the Commission in the summer.*]

(5)17640

Memorandum on Proposals for the Establishment of a State Bank in India.

I.

INTRODUCTORY.

'A Central Bank must necessarily stand in a somewhat close relation to Government. If the Bank is to be useful, it must have the management of the Government balances and of the note issue. It would be contrary to experience elsewhere and to what seems reasonable for India to hand over these functions to a purely private institution. If Government is to interfere at all, it cannot help involving itself in ultimate responsibility for the Bank, and if it is thus to involve itself, its powers must be sufficient to permit an effective supervision. From a Government with feeble powers and placed in the position of interested but irresponsible critics, there would be a greater likelihood of vexatious interference; while too great a dependence on the terms of the Bank's charter must tend to make these terms rigid and narrow for practice.

The constitutions of the principal State Banks of Europe and of the Bank of Japan are briefly outlined in an appendix to this Memorandum. Their general character points overwhelmingly to the conclusion that the higher executive officers responsible for the policy and administration of the Bank must be appointed by Government and rest under its ultimate authority. In all State Banks of importance the influence of the shareholders is chiefly consultative and advisory.

If these preliminary points are granted, we are at once faced with a somewhat different proposal from that which the Government had before them in 1900–1902. The position at that time seems to have been that, if the Presidency Banks would amalgamate on their own initiative and also increase their capital by a substantial amount, the Government would seriously consider the handing over to them, on terms to be discussed later, of the management of the paper currency and the use of a large portion of the public balances. The advantages to be gained by the Presidency Banks were insufficiently certain or precise, and the proposals fell through. Several of the difficulties which have appeared serious to some of our witnesses are more relevant, I think, to the proposals of 1900–1902 and to the popular idea of a State Bank thus fostered than to the proposals to be developed below.

The question why anyone should wish to set up a State Bank and the advantages to be got from it are treated in section VIII. Section II. is devoted solely to the problem whether it is feasible to devise for such a Bank a working constitution.

The main difficulties to be faced are the following:—

(i) To combine ultimate Government responsibility with a high degree of day-to-day independence for the authorities of the Bank.

(ii) To preserve unimpaired authority in the executive officers of the Bank, whose duty it would be to take a broad and not always a purely commercial view of policy, and at the same time to make use of the commercial instincts and commercial knowledge of representatives of the shareholders.

(iii) To maintain in the day-to-day management of the Bank the high degree of decentralisation to which great importance is rightly attached in the case of so large a country as India.*

Further points, such as the *status* of the Bank in London, the method of regulation of the note issue, the division of profits between the shareholders and the Government, no doubt present difficulties. But these must certainly

* As the Government of India wrote to the Secretary of State when advocating the establishment of a Central Bank (January 18, 1900):—"Nothing would be more unwise than "to discard the valuable local knowledge, skill and experience of the existing directorates and "managements of the Presidency Banks."

be capable of some solution. Fundamental objections to the proposed Bank must arise out of its failure to satisfy the three main conditions set out above.

An outline constitution so far as affects these three fundamental points is given below.

II.

OUTLINE CONSTITUTION, SO FAR AS CONCERNS THE RELATION OF THE BANK TO GOVERNMENT, THE POWERS OF THE SHAREHOLDERS, AND DECENTRALISATION.

1. The supreme direction of the Imperial Bank of India shall be vested in a Central Board of three members, consisting of the Governor of the Bank (who shall be Chairman), the Deputy Governor, and a representative of Government, together with three or more Assessors.

2. The Governor shall be appointed for periods of 5 years (subject to age limit) by the King on the recommendation of the Secretary of State, and shall be removable in like manner. He shall be eligible for re-appointment. The salary of the Governor shall be Rs. 100,000 per annum.*

3. The representative of Government shall be appointed by the Viceroy, and shall be, in general, the Financial Member of the Viceroy's Council, the Member for Commerce and Industry, or the Secretary from the Department of one of them.†

4. The Assessors shall be the Managers of the three Presidency Head Offices (*see* below) and of such other Head Offices as may be created hereafter, or their Deputies. The Assessors shall have the right to attend any meeting of the Central Board and to lay their views before it, but shall not vote. The Central Board shall also have the right to summon any of the Assessors to attendance.

5. The Deputy Governor of the Bank, and Managers of the Presidency Head Offices, who shall all be of the same status and receive salaries of Rs. 60,000* shall be appointed by the Viceroy on the nomination of the Governor of the Bank and of the Government representative on the Central Board. But the appointment of a Manager to a Presidency Head Office shall be subject to the approval of the Presidency Board (including representatives of the shareholders) of the Head Office in question.

6. Within the limits of the Bank Act, the Central Board shall have absolute authority, and the signature of the Governor supported by a majority vote of the Board shall be legally binding upon the Bank; save that the representative of the Government shall have discretionary power (for use in emergencies only) to suspend the carrying into effect of any decision until it has been reported to the Viceroy, with whom shall lie an ultimate right of veto.

7. The Central Board, which will have no direct dealings with the public, shall have its offices and establishment located at Delhi (or Calcutta). Its members will keep in touch with the chief commercial centres of the country, partly by the attendance from time to time of the Assessors, and partly by touring on the part of the Governor or his Deputy.

8. All transactions between the Bank and the public in India shall be under the authority of one or other of the Head Offices. In the first instance, Presidency Head Offices shall be established at Calcutta, Bombay and Madras, and the spheres of influence of these Head Offices shall be the same as those of the existing Presidency Banks.‡

9. Each Head Office shall be under the direction of a Presidency Board, consisting of the Manager (who shall be Chairman and have the casting vote), the Deputy Manager, a representative of the Local Government, and three (or four) unofficial members.

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* These figures are put forward very tentatively, to suggest the status of the officers affected

† Or the Comptroller of Currency, the proposed appointment of whom has been lately announced.

‡ Including Ceylon, as at present in the case of the Madras Head Office.

10. The unofficial members shall be elected by the shareholders on the local register of each Presidency from amongst their own number.

11. Any business, within the limits of the Bank Act, and not contrary to the express instructions of the Central Board, entered into by a Presidency Board, shall be legally binding on the Bank.

12. Although the Central Board shall have authority to issue instructions, to which the Presidency Boards shall be subject, on all matters, nevertheless in general, and failing special prior instructions to the contrary, a Presidency Board shall have entire discretion to transact on its own authority all business of the following descriptions:—

(1) To discount Indian (rupee) trade bills, maturing within a maximum period of six months, subject to a minimum rate arranged from time to time in consultation with the Central Board;

(2) To rediscount sterling trade bills, bearing the endorsement of another bank, subject to minimum rate arranged from time to time in consultation with the Central Board, and subject to daily report to the Central Board.

(3) To make interest-bearing loans (subject to a minimum rate, &c.), for periods not exceeding six months against such kind of security as is permitted by the Bank Act.

(4) To buy and sell in India, subject to daily report to the Central Board, gold bullion and such bonds and securities as may be dealt in according to the provisions of the Bank Act.

(5) To provide trade remittance for customers to all parts of India, and private remittance to London subject to certain conditions.

(6) To accept interest and non-interest bearing deposits, subject to a maximum rate, &c.

(7) To accept valuable goods for safe keeping.

(8) To open, staff, and control branch banks at any place within the Presidency Board's sphere of influence.

13. A general report on all such transactions shall be forwarded to the Central Board weekly, and more frequently when the Presidency Board think it desirable, or the Central Board request it.

14. In regard to the rates charged for discounts and loans, and allowed on deposits the Presidency Boards shall be free to vary the rate charged in individual transactions and at their different branches, subject to minimum (or maximum) rates, fixed weekly (or in emergency more frequently) in consultation with the Central Board.

III.

DISCUSSION OF THE OUTLINE CONSTITUTION.

The object of the above draft proposals is merely to indicate in a more precise way than is otherwise possible the kind of relations which are contemplated between the Government, the Central Board, the Presidency Boards, and the shareholders. It will be worth while to discuss these points more fully and to consider also how far such proposals satisfy the three fundamental conditions which were laid down in I.

1. First, as regards the relation of the Bank to the Government. The creation of such a bank as is here proposed certainly increases in a sense the responsibilities of Government. But there are two senses of the term "responsibility." The Government may be said to be responsible if, in the last resort, it is the Government that has to come to the rescue. Or it may be held that it can only be called responsible if, in addition to this, it is the proper object of criticism or blame if anything goes wrong. Those acquainted with the present banking position in India would maintain, I think, that the Government already possesses responsibility in the first and more important sense. So long as they manage the note issue, and maintain large cash balances outside the ordinary banking system, they are bound to come to the rescue of the Presidency Banks in the event of a widespread crisis involving the banks generally.

The prevention of occurrences contrary to the public interest, rather than the avoidance of responsibility, ought in general to be the first object

of Government. The only good reason for avoiding responsibility in the first sense is in the case of kinds of action which Governments are not competent or have not the machinery to perform well; and the only good reason for avoiding it in the second sense, when it already exists in the first, is in cases where explicit responsibility would involve them in such unpopularity or criticism as might impair their general efficiency. It cannot be maintained that some responsibility for banking, seeing that it is in fact undertaken by nearly all civilised Governments, is inherently undesirable. The undesirable features in the Government's present degree of responsibility for these things in India are rather due to the lack of a suitable machinery. I need not enlarge on this. There is an absence of trained experience and specialised knowledge on the part of those responsible, so that financial duties are apt to be thrown on officers concerned, during the greater part of their careers, with quite other things. The business is of a kind where immediate action and undivided responsibility in regard to details is essential, whereas, if it is dealt with in the ordinary mills of Government, this is nearly impossible. But given a suitable machinery I do not see why anyone should wish to divest Government of the duties in question. That the solution lies in the provision of a more suitable machinery, rather than in the getting rid of existing functions, has been strongly impressed on me in the course of the Commission's deliberations. This more suitable machinery the creation of a State Bank affords.

It seems clear that Government cannot entrust any of its existing duties to private hands. It has also become plain that, whether a State Bank is established or not, Government, so far from relinquishing old duties, must bend itself to new ones. The functions of the note issue, it is generally agreed, must be extended, and an element of discretion must be introduced where there was previously none. As in the case of the note issue, so in the case of the cash balances, there must be less rigidity of rule and more discretion. Now, with a State Bank all this would be easy, and there are plenty of precedents to look to; but as soon as an attempt is made to work out precisely by what sort of procedure these objects are to be attained in the absence of a State Bank, it becomes apparent that it is not altogether through chance or obtuseness that such desirable changes have not been made long ago. The existing system has been deeply conditioned by the absence of a State Bank. The history of the management of the cash balances, for example, bears witness to this. At no time has anyone supposed the existing system to be perfectly satisfactory. It has established itself because it is the only system which frees the officials from the exercise of a discretion for which they do not feel themselves competent and from which they therefore shrink. The evidence is that actual practice has always tended to be more rigid than the actual letter of the rule laid down by the Secretary of State; and naturally enough. Similarly in regard to the paper currency. In the first instance, no doubt, the system was set up in uncritical imitation of the Bank of England's, and under the influence of the theory that it was a positive advantage for note issue to be separated from banking; but for 30 years at least this theory has lacked vitality or offspring, and note issue in India has remained divorced from banking because there has been no bank to join it to, and because, for a rule-of-thumb system, it is a fairly good one.

The choice lies between a good deal of responsibility *without* thoroughly satisfactory machinery for the discharge of it; and a little more responsibility *with* such a machinery. The balance of advantage is with the second alternative.

As regards the Secretary of State's exposure to pressure or parliamentary criticism of an undesirable kind, the creation of a State Bank would, without question, improve and strengthen his position. Recent experience shows that he cannot, under the present system, resist cross-examination on minute details of financial management. If arrangements are introduced for loans from the cash balances and for some degree of regulation of the currency reserve by discretion, will he not be liable to all kinds of questions in Parliament on details of executive policy? If the Government of India is lending three crores from the cash balances and some business men think they would like four crores, what will there be to prevent the working up of a strong agitation by means of the Press, daily fed and

inflamed by questions in the House, for lending on a larger scale? I do not see how the Secretary of State could be more exposed than he is to what may really be a most undesirable thing, namely, cross-examination on actions which are, in truth, none of his business.

The State Bank, on the other hand, would have a high degree of independence; and there would be numerous questions to which the Secretary of State's proper answer would be that it was entirely a matter for the Bank. He would never admit, for example, the faintest degree of responsibility for the precise level of the bank rate at a particular moment. The Secretary of State would be behind the Bank, but his authority would only come into play on rare and important occasions. On important changes of policy and on alterations of clauses in the Bank Act, the Secretary of State would have the last word and with it the responsibility. If over a period of time there were a widespread feeling that the regular administration of the Bank was ill-conducted, it would be his duty to grant an inquiry and to act in the light of its report. But for the ordinary daily work of the Bank he would necessarily disclaim responsibility to a far completer extent than is at present possible in the case of any of the financial business now conducted by the Government. The method of appointment suggested above of the Governor and Deputy Governor is intended not to make them Government officials, but to place them in a position of considerable independence. A State Bank would certainly act as a buffer of no little importance between the Secretary of State and external pressure of an undesirable kind.

This day-to-day independence of the Bank, which would incidentally prove a relief to the Secretary of State, would be absolutely essential from the Bank's own point of view. It is not likely that the commercial community would acquiesce in any proposal where it was absent. Banking business must be outside the regular Government machine, ignorant of "proper channels," and free of the official hierarchy where action cannot be taken until reference has been made to a higher authority. The officials of the Bank should have precisely the same powers for the prompt transaction of business that the officials of the Presidency Banks have now.

The presence of private capital is probably a considerable bulwark against some kinds of political pressure. Continental experience shows that private ownership of the Bank's capital, even although the shareholders have no more than advisory powers, is an important safeguard of the Bank's independence; and continental writers have laid great stress on this.*

The outline constitution given above has been designed with a view to these conditions. The Bank, though ultimately dependent on the State, would lie altogether outside the ordinary Government machine; and its executive officers would be free, on the one hand, from the administrative interference of Government and free also, on the other hand, from too much pressure on the part of the shareholders, in cases where this might run counter to the general interest.

A State Bank of the kind proposed might really get the best of both worlds. It is difficult to predict how a new institution will work out in practice. But the advantages of a State and of a private institution may be, partly at any rate, combined. Representatives of the public interest must have the ultimate control, because a State Bank is given powerful monopolistic rights; and the public interest may not invariably be at one with the interests of shareholders, though on the whole and generally speaking the shareholders must benefit largely by their connection with the State. On the other hand the alliance of the State with private shareholders serves to keep the executive of the Bank in close touch with commercial opinion, and introduces that element of commercial self-interest, from which, in the present economic arrangement of affairs, a State Bank, as well as private institutions, may derive a real advantage.†

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* *See* Appendix B.

† The same point is emphasised in the following quotation from the official history of the Reichsbank:—"Through the co-operation of the Reichsbank authorities, who are not interested "in the financial profits of the Bank, with the representatives of the shareholders, who are "practical business men, the Bank management is safeguarded, since it takes into consideration "the interest of the public; and at the same time the experience and business knowledge of "the shareholders, who are financially interested in the success of the Bank, are utilised in the "guidance of the Bank. This bank organisation, which strikes the mean between a purely "State Bank and a purely private one, has proved to be the best system according to the "experience of most European countries."

It may be added in this connection that the Governor and Deputy Governor of the Bank should invariably be persons of commercial or banking, not of administrative or official, experience, and should be appointed, so far as may be possible or convenient from the staffs of the Presidency Offices. Though it would not be wise to lay down any rule or principle on the matter, and while it might be an advantageous thing to introduce from time to time officers whose banking experience had lain elsewhere, the Governorship of the Bank should be a position to which the leading officials of the Presidency Offices could reasonably look forward as a possible prize. It might, perhaps, increase public confidence in the non-official character of the Bank's management and in the Government's intentions, if it were definitely laid down that members of the English or the Indian Civil Service were ineligible for appointment as officers of the Bank.

2. Second, as regards the relation of the Central Board to the Presidency Boards, and the arrangements for decentralisation. We are here presented with a problem which is largely peculiar to India. But a little may be learnt from the organisation of the Head Offices of the Reichsbank described in Appendix A; and the establishment of local Committees or Directorates is fairly familiar in the case of many important banks doing business partly in London and partly abroad.

It is clear that the organism of the Central Board must be quite distinct from that of any of the Presidency Head Offices. It would be undesirable, *e.g.*, that the Calcutta Office should be superior in any way to the Bombay Office. The Presidency Boards and Presidency Offices must all be on a complete equality and stand in the same relation to the Central Board. Even if it proved convenient for the offices of the Central Board to be located in Calcutta, this Board would be quite distinct from the Bengal Presidency Board, just as the Imperial Government has been distinct from the Local Government of Bengal. This has not been a feature of earlier schemes, and the suggestion that one of the Presidency Offices would be in effect the Head Office of the whole Bank has been responsible for setting up local jealousies which the present scheme ought to avoid.

In the outline constitution given above, Delhi (or alternatively Calcutta) has been suggested as the headquarters of the Central Board. Delhi is open to a good deal of obvious criticism, but has, on the other hand, some advantages. To place the Central Board at Calcutta might lead to an undue overshadowing of the Bengal Presidency Board, as well as to a confusion in the public mind regarding the relation of the two Boards to one another. The suggestion of making the Calcutta Office the Head Office would no doubt commend itself to Calcutta interests. But there is no question of this; and it is doubtful whether local Calcutta interests would welcome a Central Board, on which Calcutta shareholders would not be directly represented, in immediate proximity and with superior powers to their own Presidency Board on which local interests have ample representation. To fix the Central Board at Delhi safeguards, on the one hand, its own impartiality and, on the other hand, the complete local independence of the Presidency Boards. This location would also facilitate the attendance of the Government representative,* and would be geographically convenient both for touring on the part of the officers of the Central Board, and for attendance at meetings on the part of the assessors from the local boards.

The chief objections to Delhi are, first, that this location would place the Bank too much under the direct influence of Government, and second, that the officers of the Bank would be too little in touch with commercial opinion. The first objection is obviously not capable of a precise answer and will appeal with varying force to different persons. But it may be pointed out that there is little reason for supposing that high authorities will wish to interest themselves in the Bank's daily transactions of which they will not, apart from the Government's representative on the Central Board, have any official cognisance at all; and that the Bank's independence

* It is understood, however, that the new Comptroller of Currency is to have his headquarters at Calcutta.

is considerably safeguarded by its constitution, and by the complete absence of connection with the Civil Service on the part of the Governor and Deputy Governor. The second objection is partly met by the following considerations. In the first place, the Central Board is to have no direct dealings whatever with the public, to whom, therefore, so far as the transaction of business is concerned, its location will be a matter of indifference. In the second place, the Central Board would rely for its knowledge of the commercial situation partly on the not infrequent touring of the Governor or Deputy Governor, and partly on the attendance at its meetings of the Managers of the Presidency Head Offices. Their knowledge of the *general* position would probably be more complete in this way than if they were permanently fixed at some one Presidency town. The fact that the busy seasons in different parts of India are to some extent distinct, emphasises the convenience of touring on the part of the Bank's highest executive officers.

The duties of the Central Board would be chiefly concerned with bank rate, with the remittance of funds from one Presidency to another, and between India and London, and with questions of general policy. But it might be advisable that they should also have directly under them an Inspection and Audit Department, not for the purpose of controlling the Presidency Boards and the various branches of the Bank, but as an independent check, after the event, on the nature of the business done, and as a means of rendering more actual the ultimate responsibility of the Central Board for all the Bank's transactions.

The position of the Presidency Managers in their capacity of Assessors to the Central Board requires further explanation. It would not be practicable to make them complete members of the Central Board, since this would imply more regular attendance at the Board's meetings than would be compatible with their duties at their own Head Offices. At the same time, it is desirable that they should be in close touch with the Central Board in person and not only by correspondence. The proposed scheme is intended to make it possible for them to attend the Central Board on occasions when they can conveniently be absent from their own office, and when they specially desire to place their views or proposals before the Central Board in person. The Central Board, on their part, would be able to convene from time to time meetings at which all the Presidency Managers would be, if possible, present. While the Central Board's offices and establishment must be fixed, there is no reason why the Board itself should not meet from time to time, if it should be found convenient, at various centres.

One of the main points to be emphasised regarding the relation of the Presidency Boards to the Central Board is that all questions of *individual* credit would be ordinarily within the discretion of the Presidency Boards. The general magnitude of the transactions of any kind must come within the cognisance and ultimate control of the Central Board. But the nature of the individual transactions making up the total, in general, should not. The Local Boards would thus possess substantial autonomy in the discount of inland bills and in the granting of advances. In all matters relating to individual credit they would possess the same independence as each Presidency Bank has now. They would also control the movement of funds within their own Presidency. They would, therefore, be able to conduct all ordinary business with members of the public with exactly the same degree of despatch as at present and without reference to higher authority.

3. Third, as regards the relation of the Bank to its shareholders. The chief points to be considered are the fair treatment of the shareholders in regard to their share of profits, the utilisation of the commercial knowledge and the commercial instincts of the shareholders' representatives, and the maintenance of the supreme authority of the Bank in the hands of officers who are not open to pressure on matters affecting public policy and the general good of the commercial and banking community.

The question of profits is treated in the next section of this Memorandum. The other two considerations are dealt with in the proposed scheme, on the one hand by constituting half (or, perhaps, a majority) of each of the Presidency Boards from representatives of the shareholders and by requiring the approval of these representatives to the appointment of the Managers of the Presidency Head Offices; and on the other hand by giving the shareholders no direct representation on the Central Board, though allowing them full opportunity of access to this Board and of laying their views before it through their local Managers. It might also be proper, as in the case of the Reichsbank, to distinguish certain questions, such as the drawing up of the annual balance sheet, on which special attention should be paid to the views of the shareholders' representatives.

Such limitation of the powers of the shareholders as is proposed in this scheme may appear to Indian opinion a somewhat novel feature which is open to criticism. But it is, I think, an unavoidable consequence of the great privileges and responsibilities of a State Bank, and does not go so far as in most of the State Banks of Europe and elsewhere.

IV.

CAPITALISATION OF THE BANK AND DIVISION OF PROFITS.

There is no question but that the nucleus of the new Bank is to be obtained by the amalgamation of the capital and reserves of the three Presidency Banks.

Continental experience suggests (*see* Appendix A) that it is probably inadvisable for the Government to subscribe any part of the capital of the Bank itself. Subscriptions from the Government are not necessary (*see* what is said below in regard to proposals for an increase of capital), and would complicate rather than simplify the relations between the Government and the shareholders.

It is proposed that the assets of the three existing Banks be taken over in the following manner:—

(1) The existing assets of the Banks to be accurately valued.*

(2) The reserves of each to be levelled, so as to bear the same ratio to their respective capitals, by reducing reserves and paying away the excess to the shareholders, or by increasing the reserves out of earnings as may be determined hereafter.†

(3) One share in the State Bank to be issued to shareholders for each share held in the Presidency Banks.

When this has been carried out, is any further increase of capital desirable? Earlier proposals for a Central Bank have attached a good deal of importance to an increase of capital. But this has probably been the case because these proposals have approached the question from a somewhat different point of view. The Government have often in the past given the low capitalisation of the Presidency Banks as a reason why they did not care to deposit a large part of their free balances with these banks. This objection was applicable in hardly less degree to a Central Bank which was merely an amalgamation of the existing Presidency Banks. Proposals for such a Central Bank were coupled, therefore, with proposals for an increase of capital. But the relation of the Government to the proposed State Bank will be such, that the additional guarantee which would be afforded by the subscription of further capital by the shareholders seems scarcely necessary. The advantage of the additional capital to Government would only arise in the case of the Bank's failure. In the event of so extreme a calamity, the loss by Government of 1,000,000*l.* more or less would be, relatively, of small consequence—the other results of such an occurrence would be so far more serious. The constitution of the Bank ought to ensure its being worked on such lines that the contingency of failure, in the sense of insufficiency of

* As they stand at present in the books of the Banks, the assets are almost certainly undervalued.

† This will present no practical difficulty, as the ratios of reserves to capital in the three Banks happen to be very nearly equal as it is.

assets to meet liabilities, is almost inconceivable. Moreover, if failure were to result, it must be admitted, I think, that the responsibility of Government would be so great that they could scarcely remove the whole of their balances intact, leaving to the shareholders the whole burden of the loss.

The only other reason for an increase of capital is lest the Bank should suffer from an insufficiency of working capital in its daily business. I doubt if this is likely to be the case. The capital and reserves under the above scheme would amount to 5,000,000*l.*, and with the control of the paper currency and of the Government's cash balances the resources of the Bank would be very great.

If, however, it were held for any reason that some increase of capital was desirable, it would not be difficult to raise it. For example, new capital might be issued for $3\frac{3}{4}$ crores (doubling the existing capital) of which only 20 per cent. would be called up. The offer of such shares to the existing shareholders *pro rata* at a premium of (say) 100 per cent.* would be a valuable concession to them, or the issue may even be made at par if it is considered politic to offer great inducements. It may be assumed in either case that the shares would be taken up. While some such method as this might be advantageous if the object were to afford some additional guarantee for the deposits, an insufficiency of working capital might be best met by an issue of preference shares. Power could be taken in the Bank Act to issue 5 per cent. preference shares to a considerable amount, only to be issued by degrees, if and when required. Although the issue of preference shares may appear unusual to English bankers,† and is thrown out merely as a suggestion, I do not see that it is open to objection.

It would probably be wiser not to add the reserves of the existing Banks to the capital and distribute them by way of a new issue of shares. Although this would mean, in effect, no more than a change in bookkeeping, it is open to the objection that it would weaken, in appearance, the balance-sheet of the new Bank and create an unwieldy nominal capital on which to pay dividends.

It may be objected that the proposed scheme takes no account of the fact that the market values of the shares of the three Banks are not all at quite the same level ‡ It is not likely, however, that, when the assets have been revalued, the actual earning power of the Banks in recent years ascertained, and the necessary readjustments made by payment of cash bonuses or otherwise, so as to bring the ratio of surplus assets to capital to the same proportion for each Bank, that any appreciable difference between the position of the three Banks will be apparent. If on investigation it were to appear that the real earning powers of the Banks or the ratios of surplus assets to capital are substantially different, it would be proper to make allowance for this. But everything points to the reasonableness of taking a broad view and treating all the Banks on a uniform plan.

The question of the division of profits between the shareholders and the Government raises a problem of a good deal of difficulty. Apart from the question of prestige, the management of the note issue and of the Government balances will provide the Bank with a considerable source of revenue, likely to grow in the future, in the fruits of which the Government must obviously share.

One method would be for the Bank to pay for the prestige by performing certain Government services without remuneration, and for the use of the public balances by a sum dependent on their amount and the bank rate; and for the Government to retain the estimated profits of note issue. This method would not be satisfactory. There is no certainty that the arrangement would work out equitably as between the shareholders and the Government. And the chief objection to it is in the inherent difficulty of separating the business of the Bank into compartments, and of deciding

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* The existing shares of the Presidency shares stand at a premium of more than 200 per cent.

† Nevertheless the "A" shares, created this year by Barclay's Bank, are not very different from preference shares.

‡ Market quotations, August 1913 :—Bank of Bengal, Rs. 1,700; Bank of Bombay, Rs. 1,670; Bank of Madras, Rs. 1,440. In each case the quotation is for Rs. 500 shares.

how much of its net profit it has derived from each source. Such a method of division of profits runs counter to what ought to be an important principle of a central Bank—the regarding of the Bank's operations *as a whole*.

In the case of the Bank of France, the Government receives no direct share of the profits of the Bank, but gets its benefit in a rather complicated way by a number of indirect services and payments. But the normal continental arrangement is one in which the Government receives its advantage partly by the free performance of services on the part of the Bank, partly by a tax on the note issue, and partly by a share in the profits. The arrangements which govern the distribution of the profits of the Reichsbank are given, as the leading example, in Appendix C. The details of the German plan are not suited to the Indian conditions; but the general idea running through it is, I think, a good one.

In the case of the Imperial Bank of India, I suggest something of the following kind :—

1. The Bank shall perform without special remuneration the following duties :—

(*a*) To purchase gold bullion at a notified rate, to issue (but not mint) gold and silver, to manage the note issue and the custody of the Paper Currency Reserve.

(*b*) To accept payments and make disbursements on behalf of the Government (Imperial and Local) at all places where the Bank has set up a branch.

(*c*) To manage the Government debt in India.

2. The Bank shall pay to the Government annually a sum equal to the present income from the *sterling** investments now in the Paper Currency Reserve, and from such investments as may be transferred from the Gold Standard Reserve in exchange for gold (*see* below). The Bank shall also pay over the proceeds of any tax chargeable on excess issues of paper currency (*see* Regulation of Note Issue, below).

3. The annual net profit of the Bank, after due allowance for depreciation, preference dividend (if any), &c., and after deducting payments to the Government under (2) above, shall be dealt with in the following manner :—

(*a*) A regular dividend of 10 per cent. on the ordinary capital to be distributed among the shareholders, being made up to this amount from the reserve, if the net profits fall short of 10 per cent.

(*b*) Of the remainder, after payment of 10 per cent., two-fifths to be transferred to the reserve when this remainder is not more than 20 per cent. of the capital, and one-third when it exceeds 20 per cent.

(*c*) The divisible surplus, after deductions (*a*) and (*b*) shall accrue to the shareholders up to an additional 5 per cent. of their capital, and thereafter to the shareholders in the proportion one-third, and to the Government in the proportion two-thirds.†

The effect of these provisions is shown in the following table :—

In Percentages of the Capital.

Net Profits, Percentage.	Percentage to Shareholders.	Percentage to Reserve.	Percentage to Government.
8	10	— 2	—
10	10	—	—
12	$11\frac{1}{5}$	$\frac{4}{5}$	—
15	13	2	—
16	$13\frac{3}{5}$	$2\frac{2}{5}$	—
18	$14\frac{4}{5}$	$3\frac{1}{5}$	—
20	$15\frac{1}{3}$	4	$\frac{2}{3}$
22	$15\frac{11}{15}$	$4\frac{4}{5}$	$1\frac{7}{15}$
25	$16\frac{1}{3}$	6	2
28	$16\frac{14}{15}$	$7\frac{1}{5}$	$3\frac{13}{15}$
30	$17\frac{1}{3}$	8	$4\frac{2}{3}$

* For the treatment of the *rupee* investments now in the Paper Currency Reserve, *see* below.

† Provision should probably be made for an increased proportion to Government and diminished proportions to the shareholders and to reserve, in the event of the net profits ever exceeding 30 per cent.

At present the net profits are approximately 17 per cent., of which 14 per cent. is divided and 3 per cent. placed to reserve. Under the above scheme the Government receives no share until 15 per cent. is being divided amongst the shareholders and nearly 4 per cent. placed to reserve. Thus, the position of the shareholders is almost certainly improved, and the Government take no appreciable part of the profits unless the control of the paper currency, the custody of the Government balances, and the prestige attaching to a State Bank have the effect of raising the profits very greatly above their present level. Those who believe that the establishment of a State Bank may have a very beneficial effect on Indian commerce and banking, will think it wise to facilitate such a course by a fairly generous offer to the existing shareholders.

One or two points may be added.

There has been a wise provision in the successive arrangements between the State and the Bank of France, by which the Bank is bound to open a certain number of additional branches within a given period of years. This undertaking is reckoned, as it were, as part of the payment made by the Bank for its privileges. In the case of the Bank of India, I suggest that while the Presidency Boards shall have discretion to open branches wherever they wish, they shall also be required to open them at the request of the Central Board, and that it shall be the declared policy of the Central Board to open branches, as rapidly as opportunity offers, and the necessary staff and organisation become available, at most places where there is now a District Treasury.*

There must also be conditions, as in the constitution of the Reichsbank, providing for the revision of relations between the shareholders and the Government.

1. The Bank Act shall be reviewed at intervals of 10 years, and shall be subject to equitable revision at the option of Government or at shorter intervals with the concurrence of the shareholders.

2. At each decennial revision the Government shall be free to take over the whole goodwill and assets (including the reserve) of the Bank at 25 years' purchase of the average of the sums payable to the shareholders in the five years preceding.

The first provision may seem to place the shareholders somewhat at the mercy of the future good faith of the Government. But it is difficult to limit the authority of a sovereign power. Every institution, however purely private, is ultimately dependent on the Government's equitable regard for existing interests. From a Government which was deliberately prepared to revise the charter *inequitably*, even a Presidency Bank would hardly be safe.

The profits of an Indian Bank are likely to be very fluctuating. It might be advantageous, therefore, if the shareholders were competent to form a reserve for the equalisation of dividends, which should remain wholly their own property in all circumstances. This might be invested in Government paper, or held by the Bank on payment of interest at a rate equal to the average bank rate during the year.

V.

REGULATION OF THE NOTE ISSUE.

The chief object of the principles set up in 1844 to govern the Bank of England's note issue was the certain avoidance of those evils attendant on an inconvertible and inflated paper currency, of which the history of the previous half century had contained notorious instances. In attaining this object by too rigorous a set of rules the utility of the note issue was destroyed. The main function of the Bank of England's notes at the present time, apart from a very few special types of transaction, is to supply the Joint Stock Banks with a convenient form of bullion certificate more easily handled than bullion itself. The inconveniences which would otherwise have arisen have been avoided, however, by the great development of the cheque system.

* These are 271 in number, while the Presidency Banks have at present only 35 branches between them. It will naturally take some time, therefore, to complete this policy of expansion

Abroad the Bank of England's principles have found no imitators. But in India they were adopted in 1860 and still persist. The effect of their rigour is not moderated by any widespread use of cheques. Many authorities are now agreed that some development of elasticity in the note issue is, therefore, required.

When we look to the experience of other countries, of which much has now accumulated, as to how this elasticity can be best obtained, the following alternatives are before us :—

(i) A fiduciary issue fixed in *amount*, as in the case of the Bank of England, but with power to exceed it (until the cash falls to a certain minimum *proportion*) on payment of a tax. This is the system in Germany and elsewhere.

(ii) A fiduciary issue fixed in *proportion* to the note issue.

(iii) As in (ii), but with power to exceed the proportion on payment of a tax.

(iv) No rules but the discretion of the bank of issue to govern the amount of the reserve, but a limitation to the aggregate issue of notes. This is the system in France, where the maximum placed on the aggregate issue has been raised from time to time whenever the actual issue showed signs of approaching it.

In the choice of a system for India, the fourth of these alternatives can be put on one side. The second ought to be neglected also. For on this system, when once the prescribed proportion has been reached, not a single additional note can be encashed without a breach of the Bank Act; for if one note is cashed, the fiduciary issue, being the same as before while the cash is less, must exceed the prescribed proportion.

Our choice lies, therefore, between (i) and (iii). Between these two there is not really any very substantial difference. For when the *amount* is fixed from time to time, it is naturally fixed so as to be some reasonable *proportion* of the total. In the case of a country with a rapidly growing note issue, the advantage lies, I think, with (iii); otherwise frequent legislative changes will be required. Germany adopted (i) in the first instance, because it seemed less of a break with the Bank of England's system; but, as their note issue has developed, frequent legislative changes have been necessary to raise the amount of the untaxed fiduciary total, so as to make it a reasonable proportion of the whole circulation.

In what follows, therefore, I propose for India a variety of (iii) :—

Proposed Rules to govern the Indian Note Issue.

1. Up to 40 per cent. of the gross* circulation of notes may be held in a fiduciary† form without payment of tax, the balance being held in cash (gold or rupees).

2. Up to 60 per cent. may be held in a fiduciary form, on payment of a tax to the Government at the rate of 5 per cent. per annum on the excess of the fiduciary issue above 40 per cent of the total circulation.

3. The proportion, in a fiduciary form, shall *never* exceed 60 per cent., *i.e.*, the proportion of cash shall never fall below 40 per cent., save that the Secretary of State in Council shall have authority, in emergency, to suspend the provision of the Bank Act which enjoins this.

The propriety of the particular percentages here proposed is, of course, a separate question from the propriety of the principle. In judging of it, we must bear in mind that, while the percentage given in (i), *i.e.*, 40 per cent., is what one would expect the Bank to work up to not infrequently, the percentage given in (2), *i.e.*, 60 per cent., is an outside limit, which the Bank would never work near to except, possibly, on occasions of dangerous crisis. For if it ever worked near to 60 per cent., the encashment of a few notes would put it in danger of having to apply for a suspension of the Bank Act. Thus, if the absolute maximum is fixed in the form of a *proportion*, plenty of margin must be allowed, and the maximum proportion must be fixed well above what would be thought the highest reasonable proportion for normal

* This is interpreted below to include the notes held by the Bank itself in reserve, as well as the "active" circulation.

† *What* fiduciary form, is discussed below.

times. If comparisons are to be made, this figure is considerably more cautious than the corresponding figure for the Reichsbank. The legal maximum proportion for their fiduciary issue is 67 per cent., but as the so-called "cash" includes some items which are not cash at all, the corresponding figure may be put at 70 per cent. In September 1911 the Reichsbank actually worked up to 57 per cent., holding only 43 per cent. in cash at the end of that month. In September 1912 they worked up to 50 per cent. This year the authorities have felt that to work up to such a figure in comparatively normal circumstance may be incautious, and they have somewhat strengthened their position. But no one has suggested that they should lower the proportion up to which they are *legally entitled* to work. I am clear, therefore, that it would be unwise, in the case of India, to fix the legal maximum below 60 per cent. (*i.e.*, to fix the legal minimum of cash above 40 per cent.). Plenty of "play" ought to be allowed for occasions of emergency, when even a suggestion of a suspension of the Bank Act might provoke panic. But it is equally clear that the *normal* maximum ought to be well below this amount. For this, reliance must inevitably be placed on the judgment of those in authority at the Bank, and not on legal safeguards.

The propriety of the figure, namely, 40 per cent. fixed in (1) is much more open to question. It partly depends on how much tax is to be paid on excess issues. I believe that it would be safe to allow the Bank to work up to this amount before any pressure need be put on the authorities, other than their own judgment, to raise the bank rate. But no principle is involved in the choice of this particular figure.

The existing fiduciary issue was 24 per cent. of the *average* gross and 26 per cent. of the *minimum* gross circulation in 1911–12; and the corresponding figures (estimated) in 1912–13 were 21 per cent. and 24 per cent. Precise comparison with the Reichsbank is not possible, because at any given date their fiduciary issue is a fixed amount and not a fixed proportion; but a study of the figures suggests that 40 per cent. is about the equivalent of German practice.

We may take the present normal minimum gross circulation at about 60 crores of which from 42 to 45 crores is active (*i.e.*, excluding Government Treasuries and Presidency Banks); of this 14 crores is now held invested. The notes now held in Government Treasuries, as well as those now held in the Presidency Banks, would be held in the reserve of the new Bank, although, presumably, the former would not be maintained at their present magnitude. We may assume that the Bank, like the Bank of England, would hold its whole cash reserve, apart from till money, in notes (*see* below).

Now, if in the slack season there were 40 crores in circulation and 20 crores in the Bank's own reserve, the fiduciary portion could rise without payment of any tax to 24 crores.

If in the busy season the active circulation rose to 45 crores and the reserve fell to 15 crores, the fiduciary portion could rise, as before, to 24 crores without payment of tax, and 4 crores higher on payment of a 5 per cent. tax on the excess 4 crores, a safe margin being still preserved below the permissible maximum of 36 crores. Recent experience shows that the circulation would frequently rise higher than this.

This scheme would, therefore, put very large funds at the disposal of the Bank. Nor would any risk be run of inability to encash the notes, as is shown in the following table, which gives the percentage of cash to active circulation in each of the hypothetical cases instanced above and in some others also :—

In Crores of Rupees.

Active Circulation.	Notes in Reserve.	Fiduciary Issue.	Cash.	Percentage of Cash to Active Circulation.
40	20	24	36	90
45	15	24	36	80
45	15	28	32	71
50	20	28	42	84
50	20	30	40	80

Further, probably 10 to 15 crores of the reserve held against the fiduciary issue (*see* below), would be held in sterling securities or sterling bills, capable of being realised in London. Thus more than 100 per cent. of the active circulation would be held either in cash or in sterling securities.

Finally the existence, quite apart from the Paper Currency Reserve, of a large sum in gold coin (if proposals to this effect are adopted) in the Gold Standard Reserve must be borne in mind when the possibility of grave emergencies is in question. In all ordinary times the existence of the Gold Standard Reserve should be treated as irrelevant to the proper magnitude of the Paper Currency Reserve; but against very grave emergencies, when the Government's guarantee of the note issue (*see* below) may possibly be required, the coin in the Gold Standard Reserve would provide a temporary bulwark, pending the realisation of the sterling securities.

It would hardly be reasonable, I think, to criticise the above scheme on the ground of insecurity to the holders of notes.* These figures also bring out the essential wastefulness of the present system. More than 100 per cent. of the *active* circulation is now held in cash.

So far merely the amount of the fiduciary issue has been discussed, and not the form of the securities to be held against it. At present 10 crores are held in rupee paper and 4 crores in Consols. It is suggested below that 6 crores in Consols should be transferred, in exchange for sovereigns, from the Gold Standard Reserve. This would make 20 crores in all of permanent investment, and this is certainly the highest figure at which the permanent investment ought to stand at present; perhaps it is too high.

The security for the fiduciary issue, beyond the 20 crores of permanent investment, should consist of approved securities (Government paper and possibly a few others) temporarily transferred from those held by the Bank on its own account or pledged with it by its customers, and of bills of exchange, both sterling and rupee. The securities, pledged with the reserve, should be taken at a safe margin below their market value.

For the fluctuating part of the fiduciary reserve, bills of exchange having two good names to them are far preferable to securities, if they can be obtained. They come into existence precisely at the moment when there is most need for additional currency and are liquidated when this need comes to an end. Securities, on the other hand, must be carried by somebody all the year round. Moreover the amount of securities forthcoming is likely to be limited. Suppose a Bank or a firm can get money at 5 per cent. on the security of Government paper and use it at 6 per cent. for three months in the year, then on the average of the year they make about $4 + \frac{1}{4}(6 - 5)$ per cent., *i.e.*, $4\frac{1}{4}$ per cent. It suits a Bank to hold some Government paper. But the above calculation show that a point would soon come when this would not pay. Bills, on the other hand, do not lock up money all the year round. To discount at 6 per cent. and rediscount at 5 is a much more profitable transaction for a Bank than the transaction outlined above.

Experience elsewhere shows that the elasticity of notes based on Government paper is very limited, and that bills are the essentially suitable backing to that part of the note issue which is fluctuating and called into existence in the busy season only. The amount of Government paper which it suits the banks to hold, since it must be held all the year round, is not suddenly expansible; nor is it easy for them suddenly to liquidate their holdings, or, from the Government's point of view, desirable that they should. The American note issue, which is based on Government paper, has proved hopelessly inelastic, and it is one of the principal objects of the projected reforms in that country to introduce an elasticity based on the

* The normal proportion of cash to active circulation would be higher than in most European systems of note issue, higher even than in the case of the Bank of France.

discount of trade bills.* In all European countries bills are the pivot on which the whole meaning and utility of the note issue essentially turns.

The only question is how far bills of a kind suitable to the portfolio of a State Bank would be forthcoming in India. It might be a matter of time before they would be available to the full extent which is desirable.

This leads us to the question of the relations of the State Bank to other banking institutions. The State Bank ought to aim, I think, to the greatest possible extent at *re-discount* business. So far as possible, that is to say, it should aim at filling its portfolio with trade bills which have passed through the hands of another Bank or shroff or marwari of high standing and have received their endorsements. This seems to me to be the right channel through which the accommodation newly available should filter down to the great mass of Indian traders. The State Bank would have on its list certain Banks and private native financiers of high standing who would be amongst its regular customers and for whom in general it would be prepared to rediscount freely.

The power of re-discount might prove a powerful aid to the development of Indian Joint Stock Banks on sounder lines than hitherto, and involve at the same time a valuable check on them. For, on admitting a Bank to the re-discount list, the local manager of the Presidency branch would require, from time to time, to examine somewhat carefully, in confidence, the Bank's position; and the risk of losing its position on the re-discount list might act, to some extent, as a deterrent to rash banking.

Apart from this check, the creation of a re-discount market would render such Banks most vital assistance. Indeed I am doubtful how far it is possible for them to develop on really sound lines without it. The smaller the Bank, the larger the number of its branches, and the less developed in banking habits the country in which it acts, the higher in proportion to its resources ought its free cash reserves to be. If a newly founded Indian Joint Stock Bank were to keep sufficiently large cash reserves to provide against all reasonable contingencies, it could scarcely hope to earn adequate dividends. At present, apart from cash, such a bank is very short of modes of so employing its resources as to keep them fairly liquid. There is no one to whom they can safely lend at call. A Bank which pays from 4 to 6 per cent. to its depositors cannot be expected to hold large quantities of high-class investments yielding barely 4 per cent. Such bills as they may get hold of must probably be held until maturity. Inevitably they tend to lock up in industrial enterprise a higher proportion of their resources than is wise Some recent failures seem to be due to a different cause, not so much to the locking up resources as to advances against *worthless* security. But in really bad times comparatively well conducted institutions may find themselves in difficulty, not because their security is worthless, but because it is temporarily unrealisable.

If a State Bank were to encourage the transaction of business by means of trade bills, through making bills easy things against which to obtain advances, native Banks might hope in time to obtain more of them for their portfolios and would have something which they could turn into cash at need by re-discount.

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* The following quotation from a recent communication to *The Standard* about the less well-known experience of Cape Colony is instructive :—" The Cape legal tender issue represents " the only attempt to establish a scientific system in South Africa, but it becomes increasingly " clear that this system is not suited to satisfy the larger requirements of the Union. The " application of this system to the Union would necessitate, on the part of the banks of issue, " the investment of additional funds in Government securities as cover, which fact, in its " turn, would narrow the already small margin between deposits and advances, and thus " lessen the Bank's power to grant facilities. This system has already proved inelastic, " despite its limited range, a fact in itself proving its unsuitability for adoption as the note " currency of the Union. Despite the demand for currency by trade during the last few " years, the Cape circulation has rarely exceeded 1,200,000*l*., although as long ago as 1891 " experts placed its natural level at 2,000,000*l*. . . . . In short, the Banks are finding " more profitable means of investment for their funds than Government securities, and the " Cape note circulation consequently does not expand."

In this matter of the development of the use of trade bills, however, I am looking not so much to the immediate future as to the ultimate development of Indian banking practice on sound and well-tried principles.

Two further points in regard to the note issue remain for discussion.

The notes must, I think, remain Government notes in the sense that the Government, in addition to the Bank, guarantees them. In this case they could preserve their present form and appearance unchanged, *i.e.*, they could remain, as they are at present, Government promissory notes payable on demand at certain places in legal tender money.*

This should allay suspicion without laying on the Government any real additional burden. For if the Bank were, by a violent chance, to get into difficulties, there cannot be the least doubt that the Government would have to maintain the solvency of the note issue whether they had formally promised to do so or not.

The remote contingency of the Government's having to give temporary effect to this guarantee could be properly laid on the Gold Standard Reserve. For, although an exchange crisis changes the form of the Gold Standard Reserve, it in no way affects the total amount of legal tender money held there.

The Government's guarantee carries with it as a necessary consequence —probably desirable on general grounds anyhow—the allocation of specific assets as cover for the note issue and a division in the Bank's published accounts between the Issue and Banking Departments. Rather oddly, this feature of the Bank of England's arrangements has not been generally imitated abroad. In the normal continental type, no distinction is made between the reserve held against the note issue and the reserve held against other banking liabilities. Legally, the whole cash reserve is treated as being cover for the notes; and no notes are held by the Bank itself, so that there is no distinction between total and active circulation. Among its assets the Bank must hold a sufficient quantity of security of a kind which is legal backing for the fiduciary part of the circulation; but no part of the Bank's securities is specifically allocated to the note issue.

In this respect the Bank of England provides India with the better model. In the published accounts a distinction should be made between the Issue and the Banking Departments thus (with hypothetical figures)† :—

Issue Department.

	Crores.		Crores.
Gross circulation of notes outstanding	65	Government Debt	10
		Consols	10
		Security pledged with Issue Department :—	
		Approved securities Bills of exchange	6
		Gold	15
		Rupees	24
			65

* In 1900 the Government of India in a despatch (18th Jan. 1900) to the Secretary of State regarding proposals for the transfer of the note issue to a central Bank, wrote :—"As "any change in the form of the note might involve temporary contraction in the paper "circulation, as change in such matters is peculiarly undesirable in India, and as the reserve "would be under the supervision and control of Government, we should have no objection "to the notes continuing in their present form, with the possible addition of the name of "the Bank and the counter signature of the officer employed to supervise the reserve. We "are of opinion, though not forgetting the objections that have been previously raised to "such a course in India, and indeed recently adverted upon by so high an authority as "Lord Northbrook, that there is nothing in the peculiar circumstances of India to prevent "the note issue being transferred to a Bank. We are, moreover, disposed to believe that "it is through the agency of a Bank that the note issue may have a larger development in "India."

† In a continental Bank these two accounts would be merged, the circulation of notes would appear as 45; no notes would appear on the asset side of the banking account; and the investments and bills in the two departments would be lumped together. This would make the proportion of cash to circulation appear to be 87 per cent., instead of 60 per cent. as in the above. This difference in account-keeping, which makes the position in continental Banks appear stronger than it really is, must be kept in mind in making comparisons.

Banking Department.

Capital, &c.	Notes in Reserve - - - 20
Deposits, &c.	Investments
	Bills
	Advances, &c.

Several details in this require explanation :—

1. The "Government Book Debt" corresponds to the 10 crores of Government rupee paper now held in the Paper Currency Reserve. I propose that this rupee paper should be cancelled, and be replaced by a Government book debt bearing no interest. This corresponds to the Government book debt due to the Bank of England, and avoids fluctuations in accordance with the market value of rupee paper.

2. The Consols (four crores from the existing Paper Currency Reserve and six crores from the Gold Standard Reserve in exchange for gold) would be taken over at market value. The initial book value should, in the event of subsequent depreciation, be written down to market value annually, but should not be written up, in the event of appreciation, until market value exceeds book value by 10 per cent., and then only by the excess beyond 10 per cent.

3. The approved securities, pledged with the Issue Department should show a margin of 5 per cent.; the bills of exchange should be taken at par, less rebate.

4. So long as the fiduciary issue does not exceed the untaxed maximum, it will make no difference to the Bank's profits whether they make up the gross circulation to the untaxed maximum by transfer of securities to the Issue Department and increase the notes in reserve correspondingly, or let the gross circulation fall below the untaxed maximum by a reduction of the notes in reserve. When the untaxed maximum is passed it will pay the Bank better to let the notes in reserve fall somewhat, as they will avoid payment of tax by the amount of the fall. This circumstance is, no doubt, the explanation of the continental method of account-keeping. But, provided the Bank is governed by caution, the extent to which they will feel willing to reduce their notes in reserve in order to avoid payment of tax will be no more than is reasonable. And even if the notes in reserve sank to zero, the position, measured by percentage of cash to note issue, would still be as strong as in a continental Bank.

5. As the Government guarantees the note issue, the securities and cash belonging or pledged to the Issue Department will become their property, so far as required for meeting liability on the notes, in the event of difficulties. But apart from the interest on the 10 crores of Consols, the annual profits of the note issue (and any excess in the value of the assets of the Issue Department over its liabilities) are the property of the Bank.

In concluding this section, a word may be said about the Circle System. There seems no reason why it should not be abolished. There should be a legal right of encashment of notes of all denominations at a small number of prescribed offices of the Bank; and all other offices, though under no legal obligation, should be authorised to encash notes whenever they can do so without embarrassment. It is to be hoped that, as time goes on, the occasions when they would not find it convenient to encash them would become increasingly rare. The notes are, of course, legal tender, and must be accepted *in payment* by all branches of the Bank.*

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* *Cf.* § 18 of the German Bank Act :—

The Reichsbank is required to redeem its notes to bearer in German currency (N.B., in silver or gold at the option of the Bank) :—

(*a*) At the main office in Berlin, and

(*b*) at its branch offices *as far as the cash and money exigencies of the latter permit.*

VI.

THE LONDON OFFICE AND REMITTANCE.

With this section we enter on a debatable part of the subject, which is largely independent of the rest.

No important object would be served by allowing the Bank to compete with the Exchange Banks in attracting deposits in London. Nor is there any clear advantage (sufficient to counterbalance the opposition which would be aroused) in allowing it to enter into the regular business of trade remittance by buying trade bills in both directions. Such competition with the Exchange Banks is in no way necessary to the prime objects of a State Bank.

But it is desirable that the Bank should be free to carry out the Secretary of State's remittance in the most satisfactory and economical way, and to hold balances in London and use them in the London market. It is also desirable that the Bank should not be unduly fettered in providing private remittance on London for its Indian customers. If at some up-country branch of the State Bank a customer wished to buy a draft on London for 50*l.*, it would be absurd if the Bank had to refuse to do this business for him.

The London Office of the State Bank would be, therefore, a comparatively small affair. It would have no direct dealings with the public, only with the Secretary of State, the Money Market, and other Banks. The Secretary of State would continue to do his ordinary banking business with the Bank of England and to maintain a balance there; and it would be the business of the London Office of the State Bank to keep him in funds. The main point for discussion is as to what the best machinery will be for carrying out the remittance transactions wherewith to keep the Secretary of State in funds.

The methods of effecting remittance are two: by selling drafts on India in London, as at present, and by buying sterling bills in India. There will be great advantages in leaving both these methods open to the Bank. The due safeguarding of the interests of existing Banks is not incompatible with this. The State Bank should be precluded from buying sterling bills in India, *except from other Banks;* its dealing in sterling bills, that is to say, should be entirely a re-discount business of bills bearing the endorsement of another Bank. The sale of rupee drafts in London might be by tender as at present, but it would probably be a better plan for the London office of the State Bank to quote rates for bills and transfers to applicants. In this matter, also, the State Bank should be confined to dealing with other Banks and not direct with the trading public, or (as an alternative, if this proposal should be deemed a hardship to certain important houses which tender direct for Council bills at present and do not, as it is, do their business through an Exchange Bank) should sell for not less than a lakh at a time.*

The Exchange Banks would thus have two ways of putting themselves in funds in India, corresponding to the two ways open to the State Bank of providing themselves with funds in London. They could re-discount sterling bills in India or buy (as at present) rupee drafts in London. The existence of the first method, as well as the second, might sometimes prove a real advantage to them. The State Bank would naturally quote rates for re-discount in India and for the sale of drafts in London which would make it worth the while of the Exchange Banks to take the course most convenient at the moment to the State Bank. If at a season when the Exchange Banks were wanting funds in India, the Secretary of State was also in need of additional cash in London, inducement would be offered to the Exchange Banks to buy drafts; and if the Secretary of

* At present, however, "specials" are often sold by the Council for much less sums than this.

State's needs were mainly in the future, inducement would be offered to the Exchange Banks to re-discount sterling bills in India, which could be held by the State Bank until the Secretary of State wanted the money.

The price which would be paid for sterling bills in India by the State Bank would necessarily be governed by the London rate of discount for such bills taken in conjunction with the rate of exchange, not by the local rate for rupee bills. Thus, if the London rate of discount for three months' sterling bills of this type were $4\frac{1}{2}$ per cent. and exchange stood at 1*s.* $4\frac{1}{16}d$, the corresponding rupee price for three months' sterling bills offered in India would be approximately 1*s.* $4\frac{1}{4}d.$ per rupee. Any concession on this price offered by the State Bank in India, so long as its London office was able to enforce 1*s.* $4\frac{1}{16}d.$ as the rate for telegraphic transfers on India, would be an inducement to the Exchange Banks to re-discount in India rather than re-discount in London and then buy telegraphic transfers there. At the same time, such a policy might be advantageous to the State Bank itself. As the London rate of discount is frequently below the Indian rate, this policy would sometimes involve re-discounting sterling bills at what would be, in effect, a lower rate than was being allowed on rupee bills. But this could afford no reasonable ground of complaint to Indian merchants. For the money thus employed would not have been available in any case for rupee advances. The alternative to the use of these funds for the re-discount of sterling bills would be the remittance of them to London through the encashment of telegraphic transfers and their employment on the London market.

There can be no question that the method outlined above is the most perfect method of effecting remittance from the purely financial point of view, and also that it will be more easy of favourable explanation to the public, for the following reasons. At present the train of events is a very complicated one. The Exchange Banks buy sterling bills in India, which they bring to London and re-discount, in part, in the London Money Market. With the proceeds of re-discounting they buy Council drafts or transfers from the Secretary of State, which, when encashed in India, replace the funds which the Banks have paid out in originally buying the sterling bills. The Secretary of State lends the proceeds of selling Councils, until such time as he has need of them for his disbursements, either to the Exchange Banks themselves or to other constituents of the London Money Market, by whom the money is largely used for rediscounting bills either for the Indian Exchange Banks or for similar institutions working in other countries. If, on the other hand, as is proposed above, the State Bank were to re-discount sterling bills for the Exchange Banks in India and hold the bills until the money was actually wanted by the Secretary of State, the whole (or nearly the whole) of the floating sterling resources would be directly employed in the assistance of India's foreign trade, instead of assisting it in a very slight and indirect way through general help given to the London Money Market. No one could justly maintain that money was being diverted away to purposes wholly unconnected with India. In the second place the floating sterling resources would earn a higher rate of interest than at present, partly through the elimination of an intermediate profit and risk, and partly because three-month bills could safely be taken in many cases in which money is now lent by the broker for only six weeks.* And, in the third place, these advantages would not be counterbalanced by any increase of risk. Whenever it turned out that the Secretary of State was in need of funds somewhat sooner than had been anticipated, it would always be possible to re-discount at the Bank of England on favourable terms sterling bills, domiciled in London, and bearing the endorsements both of the State Bank of India and an Exchange Bank. Apart from the ease of rediscount, such bills would afford the finest possible security, and the Bank could only suffer loss in the event of the simultaneous

* Because, if it turned out that the money was wanted after six weeks, the bills could be re-discounted at the Bank of England. At present money is not lent for more than six weeks and seldom for so long, because of the remote contingency, which always exists, that it might be wanted by then. In giving evidence, the Secretary of State's broker seemed to be unaware that the *average* rate for three months' money is higher than the *average* rate for six weeks' money (*i.e.*, that a man who always lent for three months would make more on the average than a man who always lent for six weeks); but this is a well-known fact, or, if not well known, easily ascertained by reference to the records of recent years.

insolvency of the Indian drawer, the London acceptor, and the Exchange Bank through which the Bill had been negotiated.*

This proposal is in no sense novel, and is merely an adaptation to Indian conditions of the practice most usually followed by foreign countries. A foreign Bank or Government, which wishes to keep floating resources in a sterling form, generally utilises for the purpose so far as it can its portfolio of sterling bills negotiated in its own country.

The Exchange Banks might be further guaranteed against ordinary trade competition by restricting the State Bank in its London rediscount business to the Bank of England.

The above proposals together with a few further points of detail can be summarised as follows:—

1. The Indian offices of the State Bank shall be permitted to supply their own customers with sterling remittance, but in the purchase of sterling *trade* bills they shall be confined to the re-discount of such bills for other Banks.

2. The London office of the State Bank shall have no direct dealings as a banker with the general public. Its business shall be confined to:—

(*a*) The sale to other Banks† of drafts and telegraphic transfers payable at its Indian offices.
(*b*) The rediscount of sterling bills at the Bank of England.
(*c*) Borrowing for short periods from the Bank of England.
(*d*) The loan of funds on the London Money Market.
(*e*) The replenishment of the Secretary of State's funds at the Bank of England.
(*f*) The flotation of sterling loans on behalf of the Secretary of State.

To these functions another might possibly be added, namely, the management of the Secretary of State's sterling and rupee debt in London. But there are considerable advantages in leaving this with the Bank of England provided the charges made by them are not deemed excessive.

It remains to discuss the management of the London office.

There is some slight danger that through its close connection with the Secretary of State and the weight of authority on its Board, this office might tend to become too influential and important. This is sufficiently guarded against perhaps by the close limitations of its functions. It will have authority, of course, in regard to purely London questions, such as the employment of balances in London and advice as to the issue of sterling loans, but the only Indian question in regard to which it will be in a position to give authoritative advice will be the purchase in India of sterling bills.

The London Board will to a certain extent take the place of the present Finance Committee of the Secretary of State's Council, and may be expected to be in much closer touch with the India Office than is likely or desirable as between the Central Board and the Government of India. Its creation will fit in very well with Lord Crewe's recent proposals for a reorganisation of his Council, on which it will not be easy in future, as I understand his scheme, to find room for more than one financier. Room can be found on the London Board for those other financial advisers, the addition of whom to the Finance Committee has been advocated by several witnesses.

The London Board, which would not include the manager of the London Office, might consist of the Financial Secretary at the India Office (or the Permanent Under-Secretary or Assistant Under-Secretary when either of these is possessed of financial experience), the Member of the Secretary of State's Council specially attached (under Lord Crewe's scheme) to the Financial Department, a representative of one of the larger mercantile houses concerned in the India trade, and two other members of financial or banking experience (one of whom perhaps might be, in general, primarily of Indian experience and the other of London experience).

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* The smallness of the risk involved is well illustrated by some figures which have been calculated for the Reichsbank. They estimate that since their foundation in 1875 their average loss on bills is well under one-3,000th part. Many of these bills are for small amounts, and without the extra guarantee of re-discount, both drawer and acceptor are in the same country and subject to similar contingencies, and the period in question is long enough to include several occasions of crisis. The average loss on re-discounted sterling bills could hardly amount to as much as one-10,000th part.

† *See also* the alternative proposal, above.

VII.

OTHER FUNCTIONS OF THE BANK.

Some of the functions already discussed, together with one or two others, may be summarised :—

(1) The Bank will perform the same functions that the Presidency Banks perform now, with relaxation, in some particulars, of the existing restrictions.

(2) It will hold as Government banker, without payment of interest, the balances now held in the Reserve Treasuries and in London, with the exception of an emergency reserve of 1,000,000*l.* which would be retained by Government in India (as proposed by Mr. Abrahams), and of that part of the London balances held directly in the name of the Secretary of State at the Bank of England. It will also hold the Government balances at all places where the Bank sets up a branch.

(3) It will manage the Note Issue on terms outlined above, and, with the exception of certain payments to Government, will enjoy its profits.

(4) It will manage the Government debt in India; and it would probably prove advantageous to entrust it with the issue of new rupee loans.

(5) Its functions in regard to remittance and the duties of the London office have been discussed above.

The following duties should *not* be entrusted to it :—

(1) The management of the Mint.

(2) The custody of the Gold Standard Reserve.

But when the Gold Standard Reserve is brought into play for the support of exchange, the Bank should act, under the Government's orders, as the Government's agent in the matter.

Something may be said in this connection about the position of the Gold Standard Reserve in the event of the establishment of a State Bank.

In the immediate past the stability of the rupee has been supported both by the Gold Standard Reserve and by the Paper Currency Reserve. This has been necessary because the former reserve has not been quite strong enough to bear the burden by itself. But as a permanent arrangement it ought not to be necessary; or, at any rate, the Paper Currency Reserve ought to be used for this purpose to only a limited degree. The ideal to be worked up to is a state of affairs in which the Gold Standard Reserve is held by the Secretary of State for the *main* purpose of supporting exchange and is adequate to this purpose, and in which the Paper Currency Reserve is held by the Bank and is controlled *mainly* with an eye to the internal affairs of India. The Gold Standard Reserve, in this case, should be governed by ultra-conservative methods, being held in gold to a far greater extent than at present; while the Paper Currency Reserve should be ruled by more commercial considerations, and a much smaller proportion than at present held in actual cash.

Although the custody of the Gold Standard Reserve and the ultimate responsibility for the maintenance of exchange must remain, in the most direct manner, with the Secretary of State, he should use the Bank as his agent in the actual sale in India of sterling drafts on London on the occasions in which the Gold Standard Reserve is brought into play for the purpose for which it exists.

The moment at which this reserve is brought into play ought not to depend, I think, upon anyone's discretion, but should be governed by rule. There should be a notification, that is to say, that the Government will at all times sell, through the Bank as its agent, sterling bills on London at 1*s.* $3\frac{29}{32}d.$ When advantage is taken of this it will be the business of the Secretary of State to put the London office of the Bank into funds wherewith to encash the bills thus sold.

The Gold Standard Reserve, while primarily held for the support of exchange, should not be legally earmarked for this sole purpose. It can properly be regarded (*see* above) as constituting, under certain conditions, an ultimate safeguard and guarantee of the convertibility of the note issue.*

VIII.

GENERAL ADVANTAGES OF A STATE BANK.

The outline of the proposed Bank's functions and of its draft constitution is now complete. A number of the advantages which are claimed for it have been developed in passing. It will be useful to summarise these, and to dwell on certain other points, not less important, which do not so naturally arise when it is the Bank's constitution which is the matter in hand.

There are first of all the direct advantages to Government. These affect questions which have been the special business of the Commission. The chief of them may be enumerated:—

(i) The existing "Independent Treasury System," by which, whenever the Government balances are swollen, deliberately or not, large sums are taken off the Money Market, is done away with by the removal of the cause of this system, namely, the absence of a large public or semi-public institution with which large balances could be safely and properly deposited, together with the difficulty of employing Civil Servants in a policy of discretionary loans out of the balances.

(ii) The objections to holding large sums at loan for short periods in the London Money Market are avoided by the method of dealing with sterling resources proposed in Part VI.

(iii) A Bank, responsible for the management of the note issue, has greater opportunities than are open to Government for pushing the circulation of notes and for popularising them by an increase in the facilities available for convertibility.

(iv) The responsibility of Government officials for a variety of financial and semi-financial business is greatly reduced by handing over to a Bank all questions of balances, note issue, remittance, and loans on the London Market.

(v) The Government has at its command the services of officers of the highest position, trained in financial and banking business, instead of Civil Servants who, however full of adaptability and intelligence, have been selected and trained mainly for other purposes.

(vi) A buffer is placed between the Secretary of State and vexatious criticism on small details of financial business.

Next come the immediate advantages to the business world:—

(i) In addition to the partial release of Government balances through their deposit in a central institution, a considerable amount of funds is made available by the reform of the note issue.

(ii) The present wide fluctuations of the bank rate and its normal high level in the busy season may be somewhat moderated.

(iii) The increase of branches, which the union of Government and banking business should promote, would gradually bring sound banking facilities to many parts of India, where they are now almost entirely wanting, both directly and by supplying a basis, in reliance on which private and co-operative banking could be built up.

(iv) The introduction of re-discount facilities, while probably not of the first importance in the immediate future, might greatly aid the eventual development of Indian banking on the most desirable lines which European experience has so far evolved.

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* The propriety of this might be brought out further by showing that in a future crisis the convertibility of the note issue and the support of exchange may not always prove to be entirely distinct problems.

At this point something may be said about the bank rate question, and the possibility of obtaining substantially the same results without the interposition of a State Bank.

India suffers not from a high *average* bank rate, but from a wide range of fluctuation and a high *maximum* bank rate. If the *average* bank rate were high, this would mean that the normal return to capital under conditions of least risk was high; and this could not possibly be cured by any monetary device. But a high temporary bank rate, due to the increased volume of cash temporarily required for moving the crops, ought to be capable of amelioration by introducing an elasticity into the credit currency. It is important, however, not to under-estimate the magnitude of the problem. Several witnesses have maintained that a loan of three crores made by the Government from its balances or from the Paper Currency Reserve would be a sufficient cure for high bank-rates. I am convinced that this is a serious misapprehension of the facts. What is true is that at any moment an unexpected and sudden loan of three crores by the Government would break the current bank rate. If borrowers and lenders had adjusted themselves to an expectation of 8 per cent. it would be reasonable to hold that a sudden offer by the Government of three crores would bring the rate down to 6 per cent. or less. But this is not the standpoint from which to consider proposals for permanent policy. What present sources of supply would fail and what new sources of demand would spring up, if there were a reasonable expectation beforehand of borrowing in the busy season at 6 per cent.?* Three crores is a very small percentage of the present transactions; it is not $1\frac{1}{2}$ per cent. of the value of the exports; it is barely half of the normal *annual* addition to India's banking resources; and to expect great consequences from the loan of it is to take a short-sighted and superficial view of the causes which really determine the value of money. The proposals made above in regard to a fiduciary issue of notes would have a more substantial effect; but I think it would be optimistic to expect even from them a normal maximum of 6 per cent. Their eventual efficacy is largely bound up with the future development of the use of notes.

This leads us to compare proposals, contingent on the establishment of a State Bank, with proposals for the loan of Government funds to the existing Presidency Banks. If the loans contemplated are comparatively small, there need be no difficulty in lending them on the security of Government paper, and the problem of the terms on which they should be lent, while not quite easy of solution, ought not to prove insuperable. But small loans could not, of course, have large consequences. Though they would, *pro tanto*, be useful and employ funds which are now wastefully idle, to offer them as a cure of high bank rate or of the existing faults in the Indian financial system is to trifle with the problem. If, on the other hand, fairly *large* loans are contemplated, other objections rise to importance. It is uncertain (for reasons given in Section V.) whether Government paper would be forthcoming in large quantities as security for temporary loans, and even more uncertain whether it is desirable to encourage the holding of a large amount of Government paper in this way. The Government could only get their funds back as a lender, by spoiling their market as a borrower. Yet there are great difficulties in lending by a Government department against the really desirable security, namely trade bills. It would take them to a wholly unfamiliar region, and require them to exercise an unaccustomed discretion.

The most serious objection still remains. It would be a perilous policy for the Government to lend on a scale sufficient to influence the bank rate, and for it to remain nevertheless wholly without responsibility for the bank rate policy. The ultimate lender and the ultimate controller of the credit currency cannot safely remain aloof from the control of the bank rate. So long as the Government do not lend and there is virtually no credit currency,

* The rate for money is largely determined by the *fringe* of borrowers and lenders who are specially sensitive to any change of conditions. If, for example, the normal maximum rate for money in India was to fall, some up-country traders could afford to pay the cultivator a little more and might hold the goods a little longer, since they would not be forced by high rates for money to hurry the goods forward to a place where they could form a basis for sterling credit.

the Government can maintain this aloofness from banking. As I have said already, existing arrangements are deeply conditioned by the fact of this aloofness. But if the Government are to lend their balances and to introduce, under their own control and discretion, a proper elasticity into the credit currency, and if they are to do these these things on a sufficient scale to make any real difference, then they cannot ignore considerations of bank-rate policy. Such a scheme involves an exercise of judgment on the part of Government officials in high matters of banking policy, without these officials having access to any first-hand banking experience. The Government is driven, therefore, to call in the assistance of a State Bank to do these things for them and to be responsible at the same time for the bank rate.

These considerations were apprehended by the Government of India when they put forward proposals for a Central Bank in 1900. After mentioning the suggestion of a note issue on the German model, they add :—"Theoretically we admit that the system might be grafted upon " the present management of the paper currency by Government. But " a Bank would be able to measure the need and extent of accommodation " much better than a Government could hope to do, and we believe that " in all countries where it has been adopted, the agency of a Bank has " been chosen for working this system. Moreover, in India recourse in any " form to a currency reserve in the hands of Government would encourage " the tendency to look to and rely upon Government exclusively. From " this point of view there would be particular objections to applying the " system to the currency reserve while it remained under Government " control." The last point seems to be a very sound one. Whenever the bank rate was high, there would be a clamour that the Government were not lending all they might.

Proposals for direct loans to the Presidency Banks, on a very moderate scale, from the Government balances and the Paper Currency Reserve may serve to meet certain of the more superficial criticisms. The Government will have an answer to the charge that they keep their whole surplus in a barren form. Indeed, so far, the proposals are good ; and for every reason they will commend themselves to the lovers of appearance. But as an attempt to solve the real problems of the Indian financial situation, I do not think they are to be regarded seriously. They are incapable of future development, since they depend for their justification on the trifling and innocuous character of their consequences. And they are right off the line of banking evolution. They do nothing towards extending to India the advantages of civilised experience.

Something has been said of the advantages of a State Bank to the Government and of its direct advantages to the commercial world. I will turn in conclusion to some wider and more general issues ; but must treat them briefly.

I attach great importance to the increased stability which a State Bank would introduce into the Indian banking system. India is not well placed at present to meet a banking crisis. The Presidency Banks are already Banker's Banks to an important extent, but they are not strong enough to support the whole burden. In effect the Government keeps a part of the banking reserves, but there is no machinery for bringing its reserves into normal connection with banking. With no central reserve, no elasticity of credit currency, hardly a re-discount market, and hardly a bank rate policy, with the growth of small and daring banks, great increase of deposits and a community unhabituated to banking and ready at the least alarm to revert to hoarding, even where it had been seemingly abandoned, there are to be found most elements of weakness and few elements of strength.

A recent article by Mr. H. M. Ross in "Capital," (September 4th, 1913) brings out these points very plainly. This article contains much which deserves reference, but the following passage is, in the present connection, the most important :—

" India and the United States of America are now practically alone among " the great trading countries of the world in possessing no Central Bank. " In view of the American banking crisis of 1907 the relation is an " ominous one. The vast monetary resources of the United States, badly

" handled and selfishly hoarded when they should have been freely used " where most required through the medium of a great central institution, " were of no avail to avert wholesale bankruptcy and a general suspension " of payment by the Banks. In a similar crisis it would be the policy, nay, " it would be the duty of each Presidency Bank to conserve its resources for " the benefit of its particular area. In the general interests of the country " this should not be." Mr. Ross might have added that India and the United States are also alone in having no re-discount market, no elasticity in the note issue, no bank rate policy, and an "Independent Treasury System" in place of a Government banker. In America the 1907 crisis served to demonstrate that such a system is indefensible, and the country is now engaged in remedying these defects so far as is possible in the very difficult circumstances which arise out of the presence of innumerable small Banks, on the one hand, all with vested interests and a terror of anything which might conceivably diminish their profits, and of a public, deeply suspicious of all moneyed interests and of anything which might strengthen their power, on the other.* In India the obstacles are far less to the introduction of the recognised preventives for the diseases of the financial body.

I have already pointed out the importance of a strong central institution in relation to the development on sound lines of native Joint Stock Banks. The encouragement of re-discount should be an encouragement to these Banks to use their funds, as they ought, in the assistance of trade, instead of in speculation or in fixed enterprises.

The great increase of branches in country districts may lead to the State Bank's playing an important part in the development of co-operative banking amongst agriculturists. The local branches should always aim at being the Co-operative Bank's bank and at helping them by judicious loans.

This increase of branches will be much facilitated when a single institution is in control of banking, the Government's balances, and the currency chest in country districts. At present there is apt to be unprofitable discussion between Government and Presidency Banks about (*e.g.*) the interest payable on loans or the subsidy required to support a branch bank where there is now a District Treasury. It would pay Government to give any subsidy short of the expense of maintaining the Treasury. But they are naturally unwilling to hand over too much profit to private persons and yet are not in a good position to gauge how much this profit would be. So long also as the District Currency Chests are not handed over to the branch bank, some economies are open to the Government Treasury which are not open to the bank. A system of haggling between the Government and Presidency Banks as to the opening of branches, in which both parties have to be convinced that they are certainly making a good bargain, must be worse than one in which the interests of the two parties are joint instead of opposed and the only consideration is whether a branch is worth opening *on the whole*.

In conclusion it is worth while to recall the Government of India's latest pronouncement on the subject, when in June, 1901, they were "regretfully compelled" to "hold the scheme in abeyance":—" We desire at the same " time to record our deliberate opinion that it would be distinctly advisable, if " practicable, to establish a Central Bank in India, so as to relieve Government " of its present heavy responsibilities and to secure the advantages arising " from the control of the banking system of a country by a solid and " powerful Central Institution."

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* Since the above was written, a new Currency Law for the United States has been carried. It is interesting to notice that, while decentralisation is secured by the establishment of from 8 to 12 regional Banks, the cohesion and strength of the new system will depend on the central Federal Board to be established at Washington (not New York). This Federal Board seems from the available account to have some slight analogy with the Central Board for India proposed above. " The Federal Board will consist of the Secretary of the Treasury, the Comp- " troller of the Currency, and five members appointed by the President with the consent of the " Senate. Its powers are enormous. A vote of five of its members can require a regional " bank to discount the paper of other regional Banks. It can fix the rate of discount. It can " temporarily suspend the reserve requirements. It can honour or refuse requests for notes " from the regional banks and has other important supervisory functions." The Government will bank with the new regional banks, and a principal object of the new organisation is to encourage the practice of re-discount.

IX.

SOME ADVERSE CRITICISMS.

The chief criticisms of proposals for a State Bank which I remember to have heard are the following :—

(1) That there is no popular clamour for it.
(2) That it would increase the responsibilities of the Secretary of State and expose him to vexatious questions in Parliament.
(3) That India is too large and too various in local custom to be worked by a single Bank.
(4) That the local jealousies of Bombay and Calcutta are too strong.
(5) That the former Bank of Bombay suspended payment in 1866.
(6) That talent is not available in India to staff the Bank's directorate.
(7) That it would not be fair on the Exchange Banks.

It is not quite just to these criticisms to give so bare a catalogue of them. Some of them become more imposing when they are enlarged on. In regard to several it is possible for each individual to judge for himself how much weight ought to be given them. An admirable summary of the views expressed by witnesses can be gathered from pages 18, 19, and 20 of the Index to the evidence.

(2) (3) (4) and (6) are, in my own opinion, the more substantial. With (2) I have already dealt. The particular constitution proposed for the Bank is designed, in part, to mitigate the force of objections (3), (4) and (6). Of these (3) has, I think, very little force provided that reasonable autonomy is allowed to the local Boards. I pressed all the witnesses, who raised this objection, to particularise the difficulties, arising out of the size and variety of India, which they chiefly had in mind ; but without success. With regard to (6) it must not be forgotten that at least as much talent will be available as at present.

The "vested interests" question is turning out much less serious than might have been expected. The Presidency Banks of Bengal, Bombay and Madras show no pronounced signs of hostility, and the authorities of the two latter have declared themselves, subject to certain conditions, definitely favourable. The present system is so wasteful that a change will provide a wide margin of profit for the shareholders of these Banks to participate in.

The Exchange Banks seem likely to oppose any substantial change in the present position. Their legitimate trading interests, however, are very fully safeguarded in the above proposals; and, as they will share in the advantage of increased stability in the Indian financial system, opposition will probably be mistaken even in their own interests. They will be but repeating the mistake which they made in 1892 in opposing the closure of the mints. It might have been expected that they would have welcomed a measure intended to introduce stability into their business, and which has in fact made the fortunes of all of them. But they held at that time that it was on the fluctuations of exchange and on the supposed bounty given to exports by a depreciating currency that they chiefly depended for their profits.

In 1900–1 the amount of consideration which should be paid to the exclusive claims of the Exchange Banks was the subject of some difference of opinion between the Government of India and the Secretary of State. The former wrote :—"We cannot see that the Exchange Banks make out a "strong claim for protection, and a suggestion which has been made that a "Central Bank should be bound to make any and all remittances through their "agency is out of the question." And, later, in answer to the Exchange Banks' protest against "State-aided Competition" :—"We could have wished "that this contention of the Banks, which appears to us to be untenable, had "been supported by some clearer indication of the actual manner in which "the competition they deprecate may be expected to prove unfair and "injurious." This comment is equally applicable to the evidence given to ourselves by Mr. Toomey and Mr. Fraser. As arising out of this evidence, it may be pointed out that the Exchange Banks have absolutely unrestricted opportunities for purely Indian business, that this side of their activities has

very greatly increased, and that Mr. Toomey deliberately depreciated the importance to them of the business of attracting deposits in London for use in India, a part of their business on which they used greatly to pride themselves and which was at one time no small part of the ground on which they claimed special consideration.

The memory of the business world is short. Apart from vested interest, the main difficulty in the way of the above proposals is the great *vis inertiæ*, engendered by an experience of good times and only to be dispelled, perhaps, by a taste of trouble. Further, I do not believe that reasonable opposition to them will chiefly depend upon the kind of detailed criticisms enumerated above, or that their essential parts are open to specific attack. The real ground of objection is at the same time more vague and better founded. The proposed scheme is a large one, and all of its consequences cannot possibly be predicted with certainty. Such a scheme must naturally provoke a doubt as to whether it is worth while to embark for a *terra incognita* which may, for all one knows, contain something hazardous in it. But the land must not be thought more unknown than it really is. The above proposals contain nothing more than an adaptation to Indian conditions of methods which have been tried successfully in a great many places.

6th October 1913. J. M. KEYNES.

APPENDIX A.

THE RELATION OF STATE BANKS TO THEIR GOVERNMENTS.

The existing arrangements in various continental countries and in Japan are given below in outline. I describe the Reichsbank and the Bank of France in a certain amount of detail, and the rest very briefly indeed, because these two are the prototypes of several others, the constitutions of which contain few original ideas.

Reichsbank.

No part of the capital is owned by the State.*

The authorities of the Bank are:—

1. The *Bank-Kuratorium*, consisting of the Imperial Chancellor as Chairman and four members, one appointed by the Emperor and three by the Bundesrat. This is of the nature of a Board of Trustees and meets only four times a year to receive a general account of the Bank's operations.

2. The *Bank-Direktorium*, consisting at present of a President, Vice-President and six members, all appointed for life by the Emperor on the nomination of the Bundesrat. This Board (to quote the Bank Act) is "the managing and executive authority of "the Reichsbank . . . . . Its orders are to be sanctioned by a majority vote, and "subjected to the instructions and directions of the Imperial Chancellor."

The *Direktorium* is "endowed with special independent powers, even though these "can be checked by higher officials; it acts in its own name as the central managing body "of the Reichsbank, forms its resolutions on its own responsibility by majority vote, and "has the rights of a 'supreme imperial board.'"†

3. The Central Committee of Shareholders (*Zentralausschuss*) consisting of 15 members elected by the general meeting of shareholders. This committee must meet at least once a month. Reports must be presented to them, relating to most of the more important weekly items in the Bank's transactions, and containing a statement of the *Direktorium's* views as to general policy. The committee's powers are purely advisory.‡ But the Bank Act enumerates a number of questions in regard to which "the suggestions of the Central Committee should receive special consideration." Amongst these may be mentioned the filling up of vacancies in the *Direktorium;* the drawing up of the annual balance sheet; the maximum amount to be loaned by the Bank in advances against collateral; the discount rate and the loan interest rate, as well as changes in the principles and the terms on which credit is to be given. The interests of the shareholders are further safeguarded by the annual appointment by the Central Committee of three of their number as deputies having the right to attend with advisory powers all sittings of the *Direktorium* and to examine the books of the Bank.

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* When in 1876 the Bank of Prussia was converted into the Reichsbank, the Capital previously held by the Prussian Government was repaid.

† *See* the official history of the Reichsbank, 1876–1900.

‡ Except on one or two minor points, not deserving of reference here, in regard to which they can veto change.

The salaries and pensions of the members of the *Direktorium* are fixed annually in the Imperial Budget.

The ordinary officials of the Reichsbank "have the rights and duties of imperial functionaries," and are precluded from holding shares in the Bank.

The members of the Central Committee of Shareholders draw no stipend.

The rules governing the management of the Local Head Offices (*Reichsbank Hauptstelle*) also deserve notice. The Reichsbank now has 486 branches* (as compared with 569 of the Bank of France), of which 20 are Head Offices. Each of these offices is under the supervision of a local board of at least two members and of a Commissioner (*Bank-Kommissarius*) appointed by the Emperor. The executive authority is in the hands of two managing officials. There is also for each such office a district committee, appointed by the Imperial Chancellor from amongst the shareholders of the Bank resident in the city where the Local Head Office is located. The powers of the local committee are similar to those of the Central Committee, and they also have the right to appoint two or three deputies for purposes of closer supervision.

These Local Head Offices have a high degree of independence. They are empowered to carry on independently in the district assigned to them by the *Direktorium* all forms of transactions permitted by the Bank Act. The signatures of the two managing officials of a Local Head Office are legally binding on the Reichsbank.

Besides the 20 Head Offices, there are 77 offices which have nearly as much independence as the Head Offices. All the rest of the branches are sub-offices directly dependent on offices or Head Offices, and requiring approval for their transactions by the higher office. According to the strict rule "no bill may be purchased by them which has not been previously laid before the higher office." But this rule has gradually been mitigated so that the higher branch can name to the sub-office those persons and business houses from whom, without inquiry in each case, bills may be purchased within the fixed limits of credit, with the reservation, however, that sanction may subsequently be refused.† In other respects the powers of sub-offices have been gradually developed. The chief obstacles, according to the official history, which have retarded the free development of sub-offices, are especially relevant to Indian conditions. In the first place the keeping of large balances at the sub-offices, or alternatively the too frequent remittance of money backwards and forwards, would have been involved. Sub-offices have not been allowed, therefore, on their own authority to accept fixed deposits on the one hand or to make advances against collateral on the other. In the second place "at the creation of the Reichsbank most of the directors of sub-offices "were not officials trained in banking, but agents some of whom performed the duties "of the office only as incidental work and received for it no fixed salary, but only a "percentage of the profits." In the course of its development the Reichsbank has tried two different lines of advance, the grant of increased powers to sub-offices in places where the amount of business was important, and the transformation of such sub-offices into offices. On the whole the second line of advance seems to have been the more successful.

Bank of France.

No part of the capital is owned by the State.

The authorities of the Bank are :—

The Governor.

Two Deputy Governors.

A General Council (*Conseil Général*) of 15 *Régents* and 3 *Censeurs*.

The Governor and Deputy Governors have always (since 1806) been appointed and removable at will by the Minister of Finance. The *Régents* and *Censeurs* are appointed by the 200 amongst the shareholders who hold the largest number of shares.‡ Three of the *Régents* must be treasury disbursing agents (*Trésorier-Payeurs général*), *i.e.*, officials, and five must come from the business portion of the shareholders, from amongst whom the *Censeurs* also must be chosen. The *Censeurs* are inspectors or auditors. They attend meetings of the *Conseil Général*, have access to the records of the Bank, and are entrusted with the duty of reporting any irregularities to the shareholders.

The *Régents* and *Censeurs* divide themselves up into five committees to deal with special departments, *e.g.*, the *Comité d'escompte*, the *Comité des billets*, &c.

The Managers of the Branches are appointed by the Minister of Finance from amongst three candidates nominated by the Governor of the Bank, who has also the power of dismissal. The names are considered, as well, by the *Conseil Général*.

It will be noticed that, so far as the letter of the law goes, the power of the representatives of the shareholders is very much greater than is the case with the Reichsbank. This is much modified, in practice, by the following considerations. In the first place the Governor has the right of veto. This right, though the occasions of its use in the last hundred years have been very rare indeed, preserves the ultimate authority of the State over changes in policy or regulation unimpaired. In the second place the official element on the *Conseil Général*, made up of the Governor, the two Deputy Governors and the three *Trésorier-Payeurs Général* amongst the *Régents*, commands six votes out of a total

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* It originally opened in 1876 with 201 branches.

† *See* Official History of the Reichsbank.

‡ This provision is quite peculiar to the Bank of France. A shareholder has at present to hold about 20,000*l.* worth in order to participate.

of 18. Since the Governor has a casting vote, if only three of the 12 unofficial members vote with the officials, the latter have an assured majority. The practical effect of this has been, in the words of M. Rouland who was Governor in 1865, that "nothing of any "description which concerns the great interest of the public, or the larger duties which "the Bank has to perform towards commerce and industry, is left to the discretion of what "is called the interested party (*i.e.*, the shareholders)."

The Imperial Bank of Russia.

This Bank stands by itself (so far as the larger countries are concerned) in being wholly owned, as well as managed, by the Government. It is under the direct control of the Minister of Finance.

*The Bank of Belgium.**

No part of the capital is owned by the State.

The Governor is appointed by the King for five years, and may be re-appointed. The active administrative council consists of the Governor and six directors appointed by the shareholders. The shareholders also elect a council of seven censors to audit and supervise. The Government exercises further supervision through a Special Commissioner, and Article XXIV. of the Bank Act runs:—"The Government has the right to "control all operations. It shall have the power to prevent the execution of any measure "which shall be contrary to the law, to the statutes, or to the interests of the State."

The Bank of the Netherlands.

Closely similar to the Bank of Belgium.

The Austro-Hungarian Bank.

No part of the capital is owned by the State.

The Governor and two Deputy Governors of the Bank are appointed by the State.

The Bank of Italy.

The capital is privately owned, but the nomination of the Director-General must be approved by the Government; and the Ministers of Agriculture, Commerce, and the Treasury form a board with powers of supervision and inspection.

The Bank of Spain.

This is a private institution, but privileged and standing in very close relations to the Government.

The Bank of Japan.

Baron Sakatami, ex-Minister of Finance, writes as follows:—"When the Bank was "first established, the Government was a very large shareholder, but these shares were "afterwards transferred to the Imperial Household Department . . . . . The Govern- "ment's supervision is very strict. It appoints the Governor and the Deputy Governor; "the directors are also appointed by the Government from among candidates elected by "the shareholders; the Government appoints official inspectors from among the officials "of the Department of Finance . . . . ."

APPENDIX B.

STATE BANKS AND PRIVATE CAPITAL.

On the occasion of the last renewal of the Reichsbank Charter in 1909, many people urged that the private shareholders ought to be bought out by the Government on the avowed ground that these were making profits which ought to accrue to the State. The following quotation from an article written by Professor Lexis in the course of this controversy is instructive:—"The officials of a pure State Bank have merely to adapt "themselves to the regulations coming to them from above; but a Bank of issue with "private capital, even when entirely managed by the State, has a sort of independence "as regards the State—an independence which protects it against interference with the "vital conditions of its existence. For the former, indeed, the interference of legislation "is always needed; but the latter must never forget that a great private capital is in its "charge. The Central Committee of the Reichsbank has undoubtedly only a very "moderate authority, but its influence, nevertheless, is far greater than that of the "advisory board of a State railroad company, because it represents the owners of the "bank capital."

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* See *The National Bank of Belgium*, by Charles A. Conant.

It was noticeable that the demand for the suppression of the private capital of the Reichsbank came, not from the Socialists, but from the Agrarians. "The Agrarians," it has been said, "wish to render the State master of the Bank, because they are to-day "masters of the State. If the State becomes master of the Bank of the Empire, the "Agrarians hope that nothing can any longer prevent them from compelling the State "to employ the funds of the Bank in the execution of their programme."

There was a similar controversy in Belgium in 1900. The following arguments against the abolition of private capital may be quoted from the *Documents Parlementaires** :—"There is, first, the confusion of public and private credit, to the great damage "of each; for they ought to remain distinct, for their respective good and for the "mutual assistance which they are at times called upon to lend to each other. Further, "there is the acceptance by the State of a task—the task of discounting—which is not "within its competence, and of which, even with the best of will, it will acquit itself "badly. It is neither wise nor practicable to suppress the legitimate stimulus of private "interest in such affairs as discount. It must not be believed that in such a matter "disinterestedness alone suffices or can afford a better guide than the foresight of "those who run the risks and reap the benefits of such operations."

APPENDIX C.

The Division of the Profits of the Reichsbank.

The duties to be performed by the Reichsbank without remuneration and the rules governing the proportion of the profits which accrues to the shareholders are as follows :—

(1) The Reichsbank must purchase gold bullion tendered to it at a fixed rate. It is "required to accept payments for the account of the Empire and to make "disbursements without compensation." It bears the whole expense of management of the note issue.

(2) The Reichsbank must pay a tax of 5 per cent. to the Government on the excess of the fiduciary issue beyond a certain amount.

(3) "The net annual profit of the Reichsbank is to be divided at the close of each year in the following manner :—

"1. In the first place, a regular dividend of $3\frac{1}{2}$ per cent. of the capital is to be distributed among the shareholders.

"2. Of the remainder, 10 per cent. is to be transferred to the reserve fund, 20 per cent. to the shareholders, and 70 per cent. to the Imperial Treasury.

"3. If the net earnings are less than $3\frac{1}{2}$ per cent. of the capital, the difference is to be made up from the reserve fund."

These arrangements, however, have been altered at every decennial revision of the Bank Act. Originally (1875) the guaranteed dividend was $4\frac{1}{2}$ per cent. (instead of $3\frac{1}{2}$ per cent.), 20 per cent. of the balance went to reserve, and of the rest the State took a quarter when the total dividends of the shareholders exceeded 8 per cent. In 1891 $3\frac{1}{2}$ per cent. was substituted for $4\frac{1}{2}$ per cent., and the one-fourth share began to accrue to the State when the shareholders' total dividend exceeded 6 per cent. After 1901 the share of the State began as soon as the $3\frac{1}{2}$ per cent. dividend and the transfer to reserve had been made, and the shareholders received 25 per cent. of the surplus. The present arrangement dates from 1911.

The actual dividends of the shareholders in recent years have averaged about 7 per cent. :—

1907	9·89 per cent.
1908	7·77 „
1909	5·83 „
1910	6·48 „
1911	5·86 „
1912	6·95 „

In 1912 the State received 1,088,732*l.* as its share of profits and 231,374*l.* as note tax 1,320,106*l.* altogether; as compared with 879,881*l.* in 1911, 1,001,139*l.* in 1910, 822,409*l.* in 1909, and 1,280,838*l.* in 1907.

The agreement between the shareholders and the State is subject to revision every ten years. And, further, "the Empire reserves the right of option on January 1, 1891, "and thereafter at the expiration of every ten-year period: (*a*) of discontinuing the "Reichsbank established by this Act, and acquiring its property on the basis of the book "values, or (*b*) of acquiring the total stock of the Reichsbank at valuation . . . . In "either case the reserve fund, in so far as it is not required to defray losses, is to be "equally divided between the shareholders of the Empire."

If at any of the decennial periods the Government had taken full advantage of this provision, it would have been much more disadvantageous to the shareholders than the new arrangements for division of profits actually made.

* See Conant, *History of the National Bank of Belgium.*

NOTE BY SIR JAMES BEGBIE.

I have signed the Report subject to the following note :—

1. I regret that I am unable to concur in the conclusions and recommendations contained in the Report on the subject of the currency policy.

2. That policy has been directed to the attainment of stability in the exchange value of the rupee by means of gold reserves collected from the profits realised on the coinage of rupees. Whilst it has been successful in achieving that object, it has brought into existence an extensive token currency which, in my opinion, is not conducive to the interests of India. I regard that form of currency as undesirable for a country which absorbs gold on a very large scale.

3. A brief examination of some of the chief arguments brought forward in favour of the measures actually adopted for securing stability in the exchange value of the rupee, and of those urged against the use of the means originally proposed for securing stability, viz., a gold currency with gold in active circulation, may help to make my point of view clear.

4. I take first the arguments given in support of the existing policy. The point has been pressed that the public preferred and demanded rupees, and the demand had to be met. That is a reason which carried considerable weight in the early years of the period during which the policy has been developed, but it has now lost its force. The public have absorbed during the last 12 years approximately equal amounts of rupees and sovereigns, but the demand for sovereigns has rapidly increased during the last four years. These recent gold requirements show an important change in the currency needs of the people, and indicate a preference for gold over rupees.

5. The next argument is one which has latterly come into prominence, viz., that the Indian system has close affinities with the currency systems of certain other countries. Such analogies are, I consider, unsafe as a guide to Indian policy, because the conditions are not identical. In none of those other countries is there the same private absorption of gold that there is in India. Whatever experience elsewhere may be, the recent demands for gold in India show a loss of confidence on the part of the public in the token rupee, and that is a situation that should not be ignored. The need for confidence to secure the exchange value of the rupee is recognised, but not the need for confidence in the currency in other respects. It is no longer possible to say that the token rupee is preferred by the Indian public and satisfies their currency requirements in face of the fact that they have latterly exhibited so strong a desire for gold as the statistics indicate. At least there is not now such general confidence in the rupee as would, in my opinion, alone warrant further large extensions of the token currency.

6. Another argument given is that it is desirable to educate people in the use of more economical forms of currency than gold. That, of course, is a desirable object, but the experience so far gained does not inspire the hope that the educative effect of present methods will be successful in attaining it. The increased circulation of notes may be pointed to as an advance towards the use of more economical forms of currency ; but it is due, not solely to a desire to economise in currency, but partly at least to increased facilities for the employment of notes. Against this favourable sign must be set the increased absorption of sovereigns. This demand for gold coin, accompanied as it has been by increased demands for gold bullion, dominates the whole currency situation. For a country which takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps the gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments. The token currency not only prevents the holders of the gold from utilising it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth. While, therefore, the process of education in the use of economical forms of currency is proceeding, the probabilities are that the people will none the less continue to amass their growing wealth in solid gold. In my opinion, what is needed is not education in the use of economical currency so much as education in the use of the stored up gold. The first step, however, is to convince the people that if they use their gold they will get it back when they want it, and that cannot be done while there is this extensive and expanding token currency. A currency in which gold was a more prominent feature

and to which token coins were less freely added would be more practical as an educative force. Gold coins would be suitable and convenient for many ordinary currency purposes, and by using them the public would be gradually led to use gold for other purposes, such as investments, especially if a considerable circulation of gold existed, sufficient to inspire the public with confidence that when they wanted their gold restored to them they could get it.

7. I come next to reasons advanced against a gold circulation. It has been said that gold in reserves is better than gold in circulation for the support of exchange. That, of course, is true, but it is equally true that gold in circulation is a better protection for exchange than token coins. Gold in circulation can never endanger exchange stability. It cannot be too strongly emphasised that danger lies in the token currency alone when unfavourable trade conditions prevail. In the words of the Report (paragraph 62), "It is the surplus tokens and not the gold which will seek an outlet at times of weak exchange." Moreover, reserves of gold can be accumulated from a gold circulation through the note issue and a good banking organisation. Even under the existing system the most satisfactory part of the gold reserves is the gold in the Paper Currency Department. The full equivalent of the currency issued against it is saved in gold for the reserve, whereas the Gold Standard Reserve represents only about one third of the token currency from which it was saved, and will redeem only that proportion of it, unless the extreme step is taken of melting down rupees. Also, a considerable portion of the coin reserve of the Note Department must be held in rupees at present. With a free circulation of gold a much smaller portion could be held in rupees and a correspondingly larger part in gold.

8. The objection that gold is an expensive form of currency is one which, I consider, can easily be pressed too far in the case of India. The token currency is being steadily exchanged for gold. To the extent at least to which that process is carried the country is not saved the expense of the gold by the present system. Also, if, as I think is the case, the token currency has the effect of encouraging and strengthening the hoarding habit, it is not true economy to object to the expense of a gold currency, and as a result to force gold out of circulation and prevent its employment in other useful ways, thus causing extreme waste.

9. Another objection is that gold coins, especially coins of small value, would be formidable rivals to currency notes. In my opinion notes will usually be preferred to coin—whether gold or silver—for such purposes as bank cash reserves and frequently for effecting remittances. If the use of notes for other purposes is endangered in any way by a circulation of gold coins because the latter are preferred, it has to be remembered that notes may be affected by the growing demands for gold. The possibility that these demands will spread should be recognised. If the public want gold they will get it whether they hold notes or rupees, and when they prefer gold they are not likely to be satisfied with notes, payment of which can be demanded only in rupees.

10. The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands for gold, and the possibility of its further expansion, make it a question of the highest importance. I do not, however, think the opinion expressed in paragraph 75 of the Report that "the hoarding habit is "sanctioned by the experience of centuries in India and by religious and racial "laws and customs" sufficiently accounts for the accelerated pace it has latterly acquired. In my opinion, that is to a large extent the outcome of the policy which has brought into existence the extensive token currency. Up to the closing of the Mints in 1893 to the free coinage of silver the public had been accustomed for generations to full value coins for their currency requirements, and they are not now prepared to hold their profits and savings in the form of overvalued rupees. Hence their preference for gold, both coin and bullion. I am therefore unable to agree that the habit is one which should be regarded as inevitable in Indian social or religious conditions and not susceptible to treatment. The statistics show that great progress has been made in attracting the cash reserves of the people into useful and profitable channels, such as investments and deposits with banks. But they also show this later reversion to hoarding on an extended scale, which is thus a retrograde movement, indicating a greater and not unnatural desire for solid security than for profitable returns on investments in a currency medium which does not provide the kind of security now clearly preferred. It seems to me that it is not to the interest of India to have its rapidly accumulating wealth diverted into idle hoards by the token-currency policy.

11. But even if that policy has not been the cause of the increased demand for gold, the difficulty remains of drawing hoarded gold into profitable use. Capital is proverbially timid and nowhere more so than in India. If, therefore, the gold held in India is to be attracted into useful employment it can, I think, be done only by providing security that when it is invested the investments will continue to represent gold, and be convertible into gold, by means of a gold currency policy in which the public will have confidence.

12. For the reasons I have indicated, I am of opinion that the true line of advance for the currency policy is to discourage an extension of the token currency by providing increased facilities for the distribution of gold when further increases in the currency become necessary. These greater facilities should, I consider, include the issue of gold coins from an Indian mint of a value more suitable for general currency use than the sovereign and half-sovereign, for the purpose of assisting the distribution of gold when, as is frequently the case, the balance of trade is strong in India's favour and gold arrives in considerable quantities. I also think that supplies of gold coins should be laid down in the up country districts with the object of giving the general public effective opportunities of obtaining gold coins.

13. I do not, however, recommend the dispersal into circulation of any of the existing gold reserves. The maintenance of the exchange value of the rupee should continue to be the guiding principle of the policy, and the reserve accumulated specially to secure the stability of exchange should continue to be specifically set apart for that purpose. But as future additions to the currency become necessary by reason of favourable trade balances, the additions should take the form of gold which will be imported in settlement of the balance of trade. With the present system it is sometimes found necessary to anticipate fresh additions to the currency by providing silver for coinage from the reserves. In my opinion it would be better to issue gold from the Paper Currency Reserve to the public in such circumstances and allow the gold when imported later to accumulate again in that reserve.

14. The procedure which I have suggested would, of course, be applicable only to normal times. Should the situation caused by the crisis of 1907–8 recur, and the gold reserves be depleted to support exchange and the silver reserves inflated, the issue of gold for internal purposes would require to be suspended until the surplus rupee reserves were reabsorbed by the public and the gold reserves restored. So long as such an extensive token coinage is in existence, it is important that the public should use it.

15. I also regret to be unable to assent to the proposals contained in the Report whereby the Treasury balances in India and in London may be utilised for the purpose of maintaining the exchange value of the rupee, and for the provision of fresh supplies of coined rupees. I see no good reason for associating the Government cash balances with currency reserves for purely currency purposes. If the gold reserves should not be strong enough to maintain exchange in a time of difficulty, it would be better to raise additional funds by the issue of temporary loans than to rely upon cash balances for such a purpose.

16. Also, I consider the cash balances an unsuitable source from which to provide supplies of silver for coinage. For example, the balances laid down in London represent mainly the proceeds of Council drafts which are sold throughout the year at current rates of exchange, and frequently at rates well below gold import point. If money so provided in London is used to add rupees to the currency in India it means that fresh rupees are issued at more than the established ratio of 15 rupees to the sovereign.

17. The same objection applies to sales of Council drafts below gold point against the Gold Standard Reserve in India for the re-issue of rupees withdrawn from circulation to support exchange, as in 1909–10, and against that Reserve and the Paper Currency Reserve for the provision of new currency. The necessity for working at gold import point in such circumstances does not appear to be sufficiently recognised, but in my opinion it is most important. To work the system by means of drafts at any other rate not only breaks the standard ratio, but lays Government open to the charge of departing from the standard to secure the profits on coinage.

18. The system by which the proceeds of all Council drafts sold are passed into the general balances of the Secretary of State, and portions are subsequently allocated to the Gold Standard or Paper Currency Reserves is open to the same objection. It seems necessary to separate sales on account of those latter funds from sales for

purely Treasury purposes, as they should be made only at the special rate indicated above.

19. I am not convinced that a good case has been made out for the location of the metallic portion of the Gold Standard Reserve in London. I consider that the portion which the Commission are recommending to be held in gold should be held in India earmarked for the support of exchange, and that when it has to be used for that purpose, it should be issued to the public who want it for export. I should not, however, be in favour of an immediate transfer of the gold now held in London to India. But when the Reserve in London is again drawn upon for the support of exchange, it should not later be restored to London, but should be allowed to accumulate in India in gold.

20. I also consider that the coin reserve of the Paper Currency Department should be held exclusively in India. It is in India alone that the notes for the redemption of which the Reserve is maintained fall to be converted into coin on demand. The transfer of a portion of the Reserve to London is a measure which is not calculated to improve the credit of the note issue and is therefore undesirable. For the same reason, I am unable to approve of the proposal to employ in London a portion of the Reserve in temporary investments.

J. BEGBIE.

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

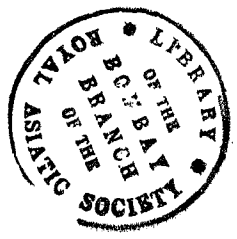
ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

VOLUME I.

Presented to both Houses of Parliament by Command of His Majesty.



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LIST OF WITNESSES EXAMINED.

Date.	Name.	Pages of Evidence.
1. May 27th, 29th, June 5th, 6th.	Mr. LIONEL ABRAHAMS, C.B., Assistant Under Secretary of State for India.	1
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MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

FIRST DAY.

At the India Office, Whitehall, S.W.

Tuesday, 27th May 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

MR. LIONEL ABRAHAMS, C.B., called and examined.

1. (*Chairman.*) You are Assistant Under-Secretary of State for India?—Yes.

2. Will you please tell me what your official experience has been?—I entered the India Office in 1893, and joined the Financial Department in 1894. In 1898 to 1899 I was the Assistant Secretary of the Herschell Committee; I mention that because that was when I became specially connected with the currency question. Then in 1902 I was made Financial Secretary, and held that post until 1911, in which period, of course, I had a great deal to do with these financial and currency questions. In 1911 I was moved to my present post, in which in a somewhat undefined way I lend a hand in dealing with financial questions; so that my financial experience goes from 1894 until now in various capacities.

3. I understand that you are prepared to give evidence as to the practice and policy in financial matters of the India Office?—Yes.

4. And especially under the first three heads of the Commission's Reference; that is to say, the location and management of the general balances of the Government of India; the sale of exchange bills and transfers; and the methods adopted since 1899 for the maintenance of the exchange value of the rupee, with particular reference to the gold standard and paper currency reserves?—I have handed in, and no doubt you have read, a note on the balances, which also deals with the sale of council bills and transfers; and then I have handed in one about the gold standard reserve. I was not proposing to deal with the paper currency reserve, because Mr. Newmarch was going to hand in, or perhaps has done so—I am not quite sure—a note on that subject. I have put in another of no very great importance about the proposals for the establishment of a gold mint in India. I dare say the secretary has circulated that to you. It occurred to me also that if the Commission desired it I might perhaps go through the history of the proposals for a central bank. One's India Office experience rather helps one to see what are the conditions which would apparently have to be satisfied if such a bank was to be well-established. Of course, if the Commission asked for anything of that sort I have no doubt that Lord Crewe would authorise me to put in something.

5. Thank you. I think we will begin, at any rate, with the questions concerning the general balances of the Government of India and the sale of council bills and transfers. I have before me copies of the two memoranda (*see* Appendices I. and II.) which you supplied dealing with those subjects, the first containing the explanatory memoranda, and the second containing copies of extracts, &c., from papers referred to in those memoranda and statements and tables illustrative of them. Those memoranda may be considered as part of your evidence?—Yes. I gave the secretary some slight corrections of those memoranda which I dare say he has given to members.

6. They shall be embodied in it?—They are very trivial.

7. In Statement B (Appendix II., pp. 74–5), you give figures showing the distribution between India and England of the total balances on March 31st in each year from 1893 to 1913, together with the estimated figures for March 31st, 1914; that is so, is it not?—Yes, that is so.

8. And in Statement A (Appendix II., pp. 67–73), you supply figures showing the receipts and disbursements in India and England for each year from 1907–8 onwards under certain heads, and so you work up from the closing balance at the end of 1906–7 to the estimated closing balance at the end of 1913–4?—Yes, that is so.

9. Will you go through the various heads of receipts and disbursements so that the Commission may get a clear understanding of the composition of the balances? Take, first, the receipts. The first head is "Revenue." That, I think, is simple. The second is "Capital received from Railway Companies." Will you explain to us what that is?—Yes. The greater part of the Indian railway system is worked by guaranteed companies, companies which have the interest on their capital guaranteed by the Secretary of State; and as part of that system they pay in all their receipts to the Government, whether for capital or for revenue, and they draw from the Government all that they require, whether for capital expenditure or for working expenses. This item No. 2

upon which you have questioned me is one of the items which come into the Government account in consequence of that system, that is to say, the railway companies from time to time would make an issue, say, of guaranteed debenture stock or something of that sort, such as, I dare say, you have noticed has recently been made, and then they pay it in to the Secretary of State, and in a very similar way payments of that kind are made into Government treasuries in India. I mention the English transactions because they are more familiar to me, but they are all of the same kind.

10. That is capital raised for and held for the Indian railway companies until they require it?—What usually happens is a little different. An Indian railway company will go on year by year spending money which it has not raised; I mean the Secretary of State will advance it, and will get interest or a share of the profits in respect of his advances. Then every now and then he will say to a railway company, "I "want you to pay me back two million pounds of my "advances." You see, that would be the alternative to issuing a loan for two million pounds.

11. Then do I understand that at that point two million pounds of fresh capital is raised in the market for the company?—It is raised by the company.

12. And paid to the Indian Government?—Yes, to the Secretary of State.

13. Then the third head of receipts is, "Loans issued for the requirements of the current year"?—3 and 3*a* in a sense go together. The Secretary of State has continually to issue loans, not, as you will readily understand, to fill up deficits in his revenue accounts, but in order to meet the capital expenditure which he is continually incurring. Very occasionally he has to borrow in order to fill up a revenue deficit, but that is very exceptional indeed. These loans which are set down here are loans practically in all cases for capital purposes. You will notice that in preparing the statement I have divided the loans into 3 and 3*a*, because in some cases the Secretary of State, say in February or March of a particular year, borrows in advance for the requirements of the following year. He would be influenced by his expectation of the state of the market and so on.

14. I think that answers the question I was going to ask you as to what rule is followed in fixing the total amount to be raised by loan in any one year?—I think one would hardly say that it was a rule. I would rather put it in this way. At a suitable time each year, about the autumn or the winter, the Indian Government, like the British Government, begins to prepare its budget. Of course, the expected revenue receipts and revenue expenditure follow to a great extent on facts which are not within the control of the Government, except, of course, when taxation is to be altered; but it also has—and this, perhaps, is a little unfamiliar to those who are only accustomed to British Government finance—to adopt a railway programme; that is, to decide that so much, say 10 millions, 12 millions, 13 millions, or whatever it may be, shall be devoted to capital expenditure on railways and so much to capital expenditure on irrigation works. Then one works out a budget, not merely a revenue budget, but what you may call a ways and means budget, in which you reckon that of this total capital expenditure so much can be met, say, from savings bank receipts, so much can be met from accumulated balances, and so on. Then, having made your calculations as best you can—and naturally in conditions of some uncertainty, because you do not know what next year is going to bring forth—you then say, or, rather, the Secretary of State then says, "In order to "make both ends meet and to end up with a suitable "closing balance we must borrow so much." It is a matter, as one may say, of general common sense to decide how to borrow it, except that I might mention this, which I think is important in some ways, that the general principle recognised is that the Government of India borrow as much as they can in India for the purpose of this capital expenditure, and then the balance, great or small, has to be found by the Secretary of State in England. I think as you go on you will see that this fact that the Secretary of State is in a sense the residuary legatee in this matter is a very important fact.

15. I think I understand why, but I should prefer to ask you: Why do the Government of India make it a practice to borrow as much as they can in India?—In former years, I think, Secretaries of State held the view much more than they do now that there were two advantages: First of all, everyone is familiar with the general political advantage of a country holding its own debt, and not having too much external debt. Then, from the seventies to the nineties, the Indian Government authorities were afraid, and properly afraid, of doing anything that would add to the burden of the home remittances. You see, if you go on borrowing several millions a year in England it means that you have to remit so much more from India to England to pay the interest. The exchange question in the period I mentioned was a very serious question, and the India Office tried to reduce as much as possible the burden of those home remittances. Now the same principle of the Government of India borrowing as much as they can in India is still held to, but I should say for entirely different reasons, namely, that, as is a matter of notoriety, year by year it has in recent times been becoming more difficult to issue loans on favourable terms in England; and that, I think, is the main justification at present, although, of course, the old reasons have some validity, not so much as they had, I should say.

16. When you say that the Government of India would borrow as much as they could in India for those reasons, I presume that means at the same rate of interest, or substantially on the same terms?—Yes. One often has to use those phrases. I suppose that if they paid a very much higher rate of interest they could borrow a great deal more, but the governing consideration, I take it, in all these matters is that you ought not to borrow in such a way as violently and suddenly to depreciate the position of your stock.

17. To go back to the receipts again, the fourth item is "Unfunded debt." Have you anything to say about that?—All I have to say is that unless one is accustomed to Indian accounts one would not understand it. It simply means the savings bank receipts. It does not mean what you would mean in the Treasury, short-dated bills, or anything of that sort. It means savings bank balances, and a few deposits of funds which, as it were, bank with the Secretary of State.

18. Does it mean the total of those funds for the moment, or the receipts in the year under review?—The net receipts in the year.

19. Then "Miscellaneous remittances" is the next item?—There is No. 5, "Deposits and advances."

20. Yes; will you tell us what the deposits and advances are?—I thought you would probably ask about that, and therefore I noted down some items which go to make it up. In the business of a government there are a great many payments and receipts which are neither properly revenue nor properly capital, and you have to have some miscellaneous sections of your accounts in which to deal with them. I have copied out from one particular year the various items which make up "Deposits and advances." Would you like me to read the chief ones?

21. Just read the principal items to give us a rough idea of what it means?—In India by far the biggest is the departmental and judicial deposits. There are large receipts and large payments. They fairly well balance one another, but the total on both sides is very large. Then the transactions, with which I think you will become more familiar later, between the Government Treasuries and the Paper Currency Department are brought to account in this particular section. Then there is a practice in India by which the Government makes advances on a large scale to native states, municipalities, cultivators, and so on, and all that comes in this section. Of course, on the one side you have the payments, and on the other side you have the repayments. Then, also, the Government acts as the banker of a great many district boards. It receives their money and pays out money to them; district boards are something like county councils; it is a rough analogy. That is the kind of item which is

entered here, and perhaps for your purpose what I have said is enough; but I could, if you cared, submit a fuller statement.

22. I think that is sufficient for our purpose. Then No. 6 is: "Miscellaneous Remittances." I only want a very short indication of what it is?—There are, for example, money order transactions which naturally come to a very large sum, both in India and international money orders. Then when we buy silver for the Government of India and send it out to India the cost is entered under "Remittances."

23. The last heading is "Council bills and transfers." I think we will leave that for the moment. Now on the expenditure side the item "Expenditure chargeable to revenue," I think, needs no explanation?—No.

24. I observe that, roughly, twenty millions has to be met in England. Is that a fairly normal sum?—I should say that it is gradually increasing. You see, in each year we should ordinarily issue a loan for several millions, and there is a gradual increase in interest charges on that account. Occasionally one effects an economy in some head of the administration, but it does not count very much against these large increases of interest. It may interest you to know that about 30 years hence there will be a very great decrease, because a great number of terminable annuities will come to an end.

25. In the meantime there is a tendency to a steady but not very large increase in any one year?—That is so.

26. Then as regards the remaining heads, have you anything to say about them—"Capital outlay," for instance?—No. You will notice, as you go through the statements, that the budget estimate of capital outlay is not worked up to as a rule, and that is a cause of a good many things upon which, I imagine, you will be questioning me. I now draw your attention to it merely. Then also you will notice that the figures about "Discharge of debt" in certain years are very heavy. Very large amounts of debt have been discharged, but I do not think there is anything noteworthy in the other items.

27. Is the sum allocated to the repayment of a debt a fixed charge?—No. There is a peculiar system with a rather long history attached to it. There is an arrangement under which ordinarily about half a million pounds taken from revenue are used, not to repay debt, because, of course, any borrowing government does not ordinarily do well to repay debt—that question has been discussed from the time of Mr. Pitt to the present day—but there is an arrangement under which half a million pounds are used from revenue for the avoidance of debt; that is to say, spent on the railways instead of money being provided by the issue of loans. When we discharge debt it is usually because the debt is of a special nature which it is desirable to discharge. Except in small amounts, and under statutory provision, we should not pay off our permanent debt at all; but we have, from time to time, very large amounts of temporary debt, India bills, corresponding to Treasury bills, and so on, and the desirability of paying off those lest they mature at a very inconvenient moment is, of course, clear. That is the sort of debt that we have been paying off for some years, and which we have almost cleared out of existence.

28. If there is an unexpected surplus of revenue at the end of the year, it does not automatically go to the payment of debt as it does in this country?—No; that is a very important point, and I am glad you put the question to me at this early stage. I mentioned the discussions which began the 18th century and have gone on intermittently ever since, as to whether a government which borrows ought at the same time to pay off debt. The practice that we have followed, and I may say there can be little doubt that it is the right practice, is that except when you are dealing with special kinds of debt such as I have mentioned you should use your surplus primarily to reduce the amount of new debt which you incur, not to incur a larger amount of new debt and then use your surplus to pay off so much existing debt.

29. I think that examination of the accounts shows us how the balances are arrived at. Now we come to the question of their location. The first part of your memorandum shows the distribution of the balances between England and India on March 31, 1913, and Statement B gives the distribution for each year after 1907, I think?—Statement B in Appendix II., pp. 74–5, gives it for a longer period; it begins earlier; if you will notice, in your copy it is 1893.

30. It is from 1893 onwards?—Yes.

31. I understand that the balances in India are divided between the district treasuries, branches of the Presidency banks, the head offices of those banks, and reserve treasuries?—Yes.

32. Will you tell me briefly what is the reason for this arrangement?—Yes. The particulars, I think, are given in the second collection of papers.

33. It is Statement C in Appendix II. on page 76?—Yes. I think perhaps the most natural order is to begin with the district treasuries and the branches of Presidency banks, which are in column 3. I should like to say here that I do not speak from first-hand knowledge, and I dare say that Mr. Gillan will be able to supplement a good deal of what I say if you ask him. The revenue in India is collected to a very great extent up-country, and it comes in the first place to a district treasury, which would be under the management of a government officer. Then in that district treasury they would naturally keep such sums as would be required, or are estimated to be required, to meet the disbursements at that place, because India being a big undeveloped country, it is necessary in country districts to keep your money where you want it. I mean you could not rely on being able to get it from other places just at the right moment. That explains why some money is kept in district treasuries; and in some districts there are branches of the Presidency banks; in some there are not. I think that the practice of the Government of India is that wherever there is a branch of a Presidency bank it is used as a district treasury. I am sure that I am fairly right about that, but I may not be absolutely right, and Sir James Begbie and Mr. Gillan can say whether it is so or not. Then the money which is not required to be kept in the districts would naturally go to the Presidency towns, to Calcutta, Madras, or Bombay, but I suppose a good deal would go to other towns of first-class commercial importance, because there the government payments would be very large. There is a very long and interesting history of the location of such government money as is held at Presidency towns. For some years all such money was put at the head offices of the various Presidency banks, but in 1874 you will have seen from what I put in my note that there was an incident, not the first one of its kind, which made a very great impression on the Government of India in those days. Certain money which the Government of India wished to withdraw from one of the Presidency banks was not placed at their disposal quite as easily as a government ordinarily would expect, or as a customer would ordinarily expect from his bankers. I may say that in 1898, when I was at the meetings of the Fowler Committee, I was quite astonished and impressed to see what a deep mark that incident had left on the mind of Lord Northbrook, who was then Viceroy. He gave evidence on the subject, and it was a thing that had evidently left a lifelong mark on his mind. In order to minimise the risk of a recurrence of that trouble about getting government money from the bank, the Government of India proposed, as you will see from the correspondence which I put in, to establish reserve treasuries at which certain sums would be held locked up. You will notice that the Secretary of State did not welcome that idea very much; he pointed out certain disadvantages; but apparently the Government of India, having very large powers in that matter, decided to take action without paying too much regard to the Secretary of State's views, and you will see in the papers which I have put in that in 1876 they set up a reserve treasury at Calcutta, and in later years—that is all given in the papers—they set up similar reserve treasuries in Madras and Bombay.

34. That was in consequence of the difficulty which they had in withdrawing at short notice their deposit in 1863 from the Bank of Bengal?—No, I have mentioned here that there was a difficulty of that sort in 1863, but the immediate cause of the setting up of these reserve treasuries was a similar incident connected with the Bank of Bombay in 1874. No doubt the recollection of 1863 had a great deal of influence on the action of 1876.

35. In 1874 the Bank of Bombay objected to the withdrawal of a sum of 350,000*l.*?—Yes.

36. Out of the total balance then to the credit of the Government of India of one million pounds?—Yes.

37. And the withdrawal was postponed in consequence of that protest?—Yes. I cannot say off-hand —I once knew, but I have forgotten—for how long it was postponed. I have not noted it down in my memorandum, but one can easily find it if it is desired.

38. Has the Government any fixed agreement with the Presidency banks?—Yes. They are very long legal documents, and I thought it might do if I gave a summary of what was really important. Shall I read what I put in my memorandum (Appendix I., paragraph 8): "The agreements provide that the banks are to "transact general business for the Government at their "head offices and certain branches; that they are to "receive specified remuneration; that the Government "is not bound to retain at the banks any particular "sum; but that if its balance at the head office of "any of the three banks falls on any day below a "specified minimum it has to pay to the bank "interest"—and then I quote the words from the agreement—"at the lowest rate chargeable on such "day by the said bank to the public for loans "recoverable on demand." "The remuneration of "the three banks and the minimum balances that "they are to hold for the Government at their head "office"—"or head offices" I should have said—"without charging interest are as follows." The Bank of Bengal has a remuneration of 2,900*l.* per annum, and the balance that it holds without charging interest is 233,300*l.* You will, of course, realise that these rather odd figures are due to the fact that figures which are round sums in rupee currency become rather angular sums in British currency. Then the corresponding figures for the banks of Madras and Bombay are:—Madras, remuneration 800*l.*, balance to be held without charging interest 120,000*l.*; and the Bank of Bombay, remuneration 800*l.*, and balance to be held without charging interest, 133,000*l.*; but then, as I mention in my note (Appendix I., paragraph 9), and perhaps I had better read that as it is important, "In actual "practice the Government of India is much more "liberal to the banks than is provided for in "the agreements. They usually keep at the head "offices of the three banks the following amounts:— "Bank of Bengal, 467,000*l.* to 533,000*l.*"; that is 70 to 80 lakhs of rupees; "Bank of Madras, a little over 133,000*l.*"; that is a little over 20 lakhs of rupees; and "Bank of Bombay, 267,000*l.* to 333,000*l.*," that is from 40 to 50 lakhs of rupees. Then, "On the "flotation of a loan and in special cases the amounts "are increased," but that is a matter of practice, and perhaps I am going a little beyond your question about the agreements pure and simple.

39. Do the banks pay interest to the Government of India if the balance rises above any figure?—No. On the other hand, to be fair to the banks, I ought to say that I think the Government of India is rather careful not to let the balance rise to an excessive figure. Then, of course, we come on later to this question of special loans granted on special application. When such loans as that are granted interest is paid.

40. I was talking merely of current balances for the moment?—Quite so.

41. Are there any other banks besides the Presidency banks and their branches with which they keep balances?—Not in India. You have heard in Parliament that we have deposited temporarily certain balances at banks in England, but in India I do not think I have ever heard of any government balance being in any bank other than a Presidency bank There may have been trifling instances; that Mr. Gillan, of course, would know.

42. Do you use any other banks in India for transferring funds in India?—I do not think so. To the best of my belief the Government of India has no relation with any banks other than the Presidency banks, except, of course, that when an exchange bank presents a bill of exchange which the Secretary of State has sold, then it is the business of the Government of India to meet it; but subject to that I do not think the Government of India has any relations with any other banks.

43. I think it would be useful to the Commission if we could have a summary of the history of the relation of the Government of India with the Presidency banks?—I have noted down what I think are the most important facts. I would like to draw your attention to a book by Mr. Brunyate*; I do not know whether you have seen it. It was written under great pressure of time for official purposes, but I think practically all that is important in the history of the Presidency banks will be found very lucidly and fully set forth in this book, so that if you ever wish to go into it fully I think you could not do better than read Mr. Brunyate's book. I might perhaps mention very briefly the few facts which seem to me of importance and which I happen to know on the subject. Shall I just mention a few?

44. Yes, if you please?—The Government of India first put balances with the Presidency banks in 1862. I think that is the first record of that being done. At that time they had rather a peculiar arrangement. They had certain shares, not a very large amount of shares, in the Bank of Bengal and similarly in the Bank of Bombay and the Bank of Madras, and they had government directors; in the Bank of Bengal there were three government directors and six ordinary directors, and I think that was also the case in the Bank of Bombay; so that on the one hand they would have a great share in managing the bank, and also they were very important customers and depositors of the bank. I do not know whether I am giving you too much detail, but I will try not to make it too extensive.

45. I want as brief a summary as you can make clear?—In 1862, when they began to deposit with the banks they had an arrangement which is set forth in Mr. Brunyate's book at page 83, of which it seems to me the important point is that though all the money of the Government in the Presidency town was lodged with the bank, the bank could only handle as banking money 70 lakhs, a little over 400,000*l.* at the present rates; all the rest of it was locked up by the bank, or if we preferred it, we could invest it in government securities. It is a somewhat peculiar arrangement, but still that is what the arrangement was. That arrangement went on only for quite a short time, until 1866, I think, and then the agreements were revised and practically—I will leave out some technicalities and some obscurities—what happened was that from 1866 to 1876 the Presidency bank handled all the government money which was in the Presidency town. The district treasuries, of course, held a certain amount of money, but the large sums that were in Calcutta went to the Bank of Bengal to be dealt with as they wished, and those in Bombay to the Bank of Bombay, and so on. After ten years of that great freedom the Presidency banks found that the great blow, as probably they regarded it, fell upon them of the establishment of these reserve treasuries which I mentioned, which took away a very appreciable sum of money from them, and naturally the policy of the reserve treasuries has been under discussion more or less from the day when they were established until the present day. The only other point I ought to mention is that in the year 1876, when a new Act regulating the Presidency banks was passed, one of its provisions was to abolish the three government directors whom I mentioned previously,

* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

and there were also a number of important restrictions introduced, but that does not arise out of your present question; you might possibly ask me about that later.

46. I will come back to it if we want it. Since the establishment of the reserve treasuries there has been substantially no change in the Government practice?—Quite so. There has, as a matter of fact, been a series of alterations of the Presidency Banks Act so as to give greater freedom to the Presidency banks, but I cannot recollect that the relations between the Government and the banks has been altered to any material extent, except, of course, that there has been a little more open recognition, I think, of the desirability of the Government lending money on interest to the Presidency banks at times of pressure.

47. I was coming to that. Would you tell us about that, please, how it arises, and, as briefly as you can, what is done?—I think you will notice at the beginning of Appendix II., pp. 32–5—one does not like to go back too much to ancient history, but I think it is worth doing so in this case—there is a despatch dated 6th May 1875 from Lord Salisbury, who was then Secretary of State, in which he generally recognised that the Government of India had considerable powers of handling their balances in India as they wished—putting them with banks, or lending them. He recognised that he ought not to control that particular business very much, and the Government of India, I believe, from time to time, I cannot say how frequently, did grant loans on interest to Presidency banks, but our India Office records are very incomplete about that matter until a discussion took place which is summed up in a despatch to the Government of India dated 4th May 1899 which will be found in Appendix II., pp. 62–4. You will see that the Government of India in 1899 submitted proposals for lending money temporarily and at interest to the Presidency banks, and the Secretary of State said that *prima facie* it was not his concern, that they could do as they wished, but then he put in the remark which I imagine had a great deal of influence on the Government of India, that ordinarily he thought that such loans should be at bank rate, not below bank rate, as the Government of India had wished. I have been told by people with whom I have discussed it that that is a very important matter, because loans would have been sought more eagerly by the Presidency banks if they had been granted below bank rate and there had been an opportunity of profit. I cannot say whether that is so or not, because in one rather important passage quoted in paragraph 15 of Appendix I. you will notice on page 4 that the Bank of Bengal say: "The suggestion which my directors "would make is that when the bank rate rises to a "height that indicates undue pressure the Presidency "banks may be able to rely on procuring loans "through the Comptroller-General either from the "reserve treasury, or failing this, from the paper "currency reserve, at the current rates for demand "loans on government paper, rising and falling there-"with." You will notice the phrase "at the current rates" not "below the current rates." Then the Bank of Bengal, feeling no doubt that this was a rather generous offer, made some remarks about the motives which led them to submit it. They say: "In sub-"mitting this suggestion my directors desire me to "state that it is made with the sole object of ensuring "a steady supply of loanable capital at moderate "rates. These loans will yield profit to the Govern-"ment and benefit all who are interested in a steady "money market, while the bank would undertake "without profit to itself the risk and labour involved"; so I do not know really whether it is a question of the rate of interest which has caused these loans to be taken so seldom in recent years or whether other conditions have stood in the way. That is a subject upon which I have no doubt the Commission will get evidence from people better qualified to speak than myself, but I think both views are sustainable.

48. Is it in your opinion desirable to encourage those loans?—Of course, that raises an enormously difficult question. I think that when the money market upon which trade depends is suffering from extreme stringency which can be alleviated by the very simple process of unlocking a government treasury and lending some money on good security and with a certainty of repayment, it is, *prima facie*, a bad thing not to apply that medicine to the temporary complaint; but at the same time, of course, there are questions whether the banks are strong enough to justify a very large increase in the amount of government money placed with them—I do not attach very much importance to that—and then there is the much larger question how far a great money market like the Indian money market should rely on government resources as distinct from what you may sum up as its own resources. My own feeling is that it would be well that with discretion the Government should apply a dose of this remedy occasionally; but there is very much to be said on both sides.

49. That has been the view taken by the Secretary of State?—Yes, I think that generally the Secretary of State has not wished to be restrictive, though I wish to be quite fair, and I think that one might say that the effect of his *obiter dictum* about the rate of interest was possibly restrictive to a greater extent than he intended or would have desired.

50. Now, if we turn to the balances in London, should I be right in saying that the main consideration which guides you in regard to those balances is the amount of the charges which you have to meet in London?—Yes. Of course, the balances exist merely in order to meet the Secretary of State's requirements, and perhaps I might add that he often does have balances which are intended to meet, or will be used in due course to meet, future requirements and not immediate requirements. In the paper which I have put in I have endeavoured to explain and justify the policy and practice which led to that state of things, but, as you say, the object of the balances is that they may be spent in London on Indian purposes.

51. Where are the balances kept in London?—There is an arrangement that not less than half a million pounds shall be kept at the Bank of England. It is very curious that the written basis of that arrangement is not discoverable, though it has been recognised orally before commissions and select committees for very many years. Practically the rest of the balances are on loan, usually to approved borrowers against security.

52. If your balances become abnormally high do you ever go outside those two places of deposit?—Yes, as you know, we have deposited large amounts with joint stock banks. That was the case from 1909 to 1912, but in 1912 the balances sank to such a level that the broker who is our agent for lending to approved borrowers found that he could place all the money, and there was no occasion to continue the rather unusual practice of depositing with joint stock banks.

53. I suppose you keep a small balance at the India Office itself?—At the India Office I believe we start each morning with about 2,000*l.*, and in addition to that what I said in reply to your question was not absolutely exhaustive, because there are certain sub-accountants, as they are called in Treasury language, who have some money. I think that the War Office, who are always spending money for us, have an imprest of 40,000*l.*, or something of that sort, and there are certain small sums placed out with people who spend it on our behalf, but all that is very trivial.

54. That practically exhausts the location of the balances in London?—Yes.

55. As regards the amount of those balances you have put in some figures; I think it is Statement B in Appendix II. (pp. 74–5)?—Yes.

56. From those figures it would appear that the total balances have been very high in recent years?—Yes.

57. Will you give me, in general terms, the reasons for that?—Yes. If one wanted it in detail, it would be necessary to go through all those figures, or some of those figures in Statement A in Appendix II. (pp. 67–73), and compare the Budget estimate and the actual

transactions in each year from 1907–8; but that would, perhaps, take time. I think in general terms this would be a fair summary of the reason of the high balances. In the first place, the revenue receipts, or rather the excess of revenue over expenditure, that is to say, the revenue surplus, has been in the actuals far higher—higher, you may say, to an extraordinary degree—than the estimated surplus. I should mention here that that fact is sometimes overlooked, because when the Government of India has had a cash surplus of, say, six million pounds or so, it sometimes makes grants of very large sums to provincial governments, and then the declared surplus as shown in the financial statement is reduced by the amounts of such grants; but it is very important, if this is not too technical a point to mention, to notice that these reductions in the declared surpluses do not reduce the actual cash balance which is held. I do not know whether I have been obscure there; but it is very important to bear in mind the difference between the cash surplus and the declared surplus.

58. No, I do not follow. The Government of India, I understand, finds itself with an unexpected surplus which has swollen its balance?—Yes.

59. Having money available, it then takes the opportunity of making a grant which it wishes to make to some provincial government?—Yes, that is so.

60. But you say that the balance is not reduced by the making of the grant?—Yes.

61. Why?—That is so important that I venture to put it at this stage. It is no more reduced, if I may put it in this way, than a banker's balance is reduced if a customer A who banks with him pays a cheque to the account of customer B who banks with him. All that the banker has to do is a book-keeping transaction. Supposing the Government of India has received in cash six million pounds more than it has expected, and then it appears that, say, in the Province of Assam more money is wanted for school buildings which will take several years to complete, it makes a book-keeping entry to the effect that it has allocated so much of its extra money to the Province of Assam, and year by year, perhaps over a very long period, that money is actually drawn out by the Province and spent; but the reduction of the declared and official surplus takes place at once, while the cash reduction takes place very slowly and over a very long period of time, so that the figures of the official surplus or the declared surplus very often give you an extremely incomplete idea of the cash position.

62. A misleading idea, in fact. As I understand your meaning, it is that the Government of India has placed to the credit of the provincial government a certain portion of the balance standing to its own credit; it has given to the provincial government the right to draw that money when that government pleases?—That is so.

63. But it continues to show its own balance as if that money were its own, and not, as it has become, the money of the provincial government?—May I correct you on one point?

64. Please do?—You say it continues to show it in its own balance. It could not do otherwise. I mean the money is in its own balance. It has locked up partly, in district treasuries, and partly in head offices of Presidency banks, and so on, large sums of money against which it has certain liabilities, and in the case that you were discussing what it had done by making a provincial grant was to create an extra liability to be met out of its balances; but creating an extra liability to be met out of your balances does not, *ipso facto*, reduce your balances, and I do not think the Government of India could do otherwise than it actually does.

65. But ought you not to do one of two things; either to transfer that sum to a separate suspense account at once, or else in your balance sheet to show the obligation against the money which you hold?—We do that. I mean if you read those painfully voluminous documents which we publish every year, the Indian Financial Statement, and so on, you will find all that information is given; but the point that I wish to mention is this, and I mention it because I think that by bringing it out here it may lessen some misunderstanding. A person who is an expert in Indian financial practice and book-keeping would, of course, at once understand that a very large increase in the cash surplus was compatible with a very small increase in the declared surplus in any particular year, because the declared surplus would be, if I may put it very briefly, the cash surplus after allowing for the new liability which has been created.

66. (*Sir Shapurji Broacha.*) The balance of the revenue has been accumulating in India in the hands of the Government of India until the next budget is out, and sums allocated to the provincial governments and other objects?—Yes.

67. Then how does that balance become transferred to England; I suppose by the over-sales of council drafts, because before the allocation is made a good deal of the balance is here?

68. (*Chairman.*) I think I must interrupt, because I think we are getting on to rather a different point from what we were on. (*To the witness.*) May I put my question to you differently? If I understand rightly what you have said now, it is that the amount of the actual unallocated surplus is reduced by these grants to provincial governments, which are in effect power to draw?—Yes.

69. But the actual cash is not reduced, because the power to draw is not immediately exercised?—I could not possibly better that. That is exactly the fact, and I drew your attention to it merely because anyone looking at the figures of the rather moderate surpluses which are declared by the Government of India might be astonished to find that there are such very big cash surpluses and cash balances. Now I think from what you have said it is clear that there is no mystery about that.

70. That is one reason, I understand you to say, for the large balances there have been in recent years?—It is one and the most important reason. May I, before going on from that, draw your attention to one statement; I think it is Statement E in Appendix II.?

71. That is the statement headed "Net revenue and "expenditure of the Government of India (excluding "provincial adjustments)" on page 81?—Yes. You will see why I put in the title of that statement, "Excluding provincial adjustments"; it is to bring out the fact that you were just mentioning. You will see in 1909–10 there was nothing very extraordinary; I mean that there was an excess of a million and a half in the surplus. Then you get to 1910–1, in which there was an excess of six million pounds odd—a little over six million pounds in the surplus; in 1911–2 you get 5,800,000*l.*, and in 1912–3 you get, roughly, seven and a half million pounds excess of the realised surplus over the budget surplus. In the next column you will notice that I have added up the excesses of the four years mentioned, and you will see that they have amounted to 20 million pounds sterling. When you have a divergence between the budget estimate and the actual results of that magnitude, I think you will see that it is a little difficult to keep your balance at any particular sum which you have set before yourself as the ideal sum for your balance. Before passing from the revenue account I should like to say that to a great extent the divergencies have been due to the position of opium. Do you care to go into any details of that sort?

72. No, if you will tell me very briefly this: Are those disturbances which are likely to recur, or are they due to special circumstances?—In the future?

73. Are they likely to recur in the future?—No, I am afraid, as far as one can gather, that the opium trade between India and China is quite dead. Of course, that must not be taken as a statement of policy, but as far as I, as an outsider in the matter, can judge——

74. As a financial estimate?—As a financial estimate, yes.

75. Then you attribute the high balances in these recent years in part to these unexpected surpluses, or largely to these unexpected surpluses?—Yes.

76. And the surpluses themselves largely to the peculiar circumstances connected with the opium trade in those years?—Yes. That is the first head of

my reply to your question. Then if you care to look through the figures, you will notice that in some years the whole expenditure on railways was very much less than had been provided for. Although I do not want to ask you to linger over details, I would just draw your attention to the year 1909–10, for example, in Statement A in Appendix II. on page 69. You will notice that the railway and irrigation authorities underspent their grants in 1909–10 roughly by a million and a half, if you look under head 9. Then if you turn to the corresponding figure in 1910–1 over on the next page you will see something still more striking; you will see No. 9: "Capital outlay on railways and irrigation works," and if you look at the last figures in the column you will see the total decrease of actuals as compared with budget rose to the remarkable figure of four million pounds. Those failures to spend the amount which is provided for capital expenditure add to the difficulty of keeping one's balance at exactly any figure that one had aimed at, more especially because the probability of their occurring is only known either to the Government of India in India or to the Secretary of State here quite a short time before the end of the year. From your Treasury experience I am sure you will understand that when a spending department fails to spend, it probably does not find out that it is going to fail to spend until quite late on in the financial year. That, I think, is the next most important cause after the revenue surpluses. Then there are certain, I think accidental, facts. During a certain period, which is included within the last five years, there were some windfalls mainly in this very large opium revenue, and it was decided, and I think very wisely decided, to hold them up in order that from them the Secretary of State might meet certain very heavy capital liabilities which he had to meet at specified times, but not immediately. I think perhaps it is worth while looking at despatch dated 23rd December 1910 from Secretary of State for India to Government of India, No. 147, in Appendix II. on pp. 65–6. The Secretary of State there sets forth this very formidable list of maturing obligations which he had to meet, amounting in all, as you will see, to 13,942,500*l.* in a short number of years, and then he explains that certain money which he has decided to set apart for the reduction of debt shall be applied towards meeting these particular obligations; but I think you will see there are good reasons for beginning the expenditure of that money in the year 1912–3 though the despatch was written in 1910. The holding up of that money for that period naturally made the balances rather high; I mean it was a contributory cause to an increase of balances.

77. Generally speaking, your evidence comes to this, that these balances were abnormally high in part owing to certain proposals for reducing debt—paying off debt—and mainly owing to accidental causes which could not have been foreseen?—I think that is so, yes—well, causes which I should say were not foreseen. Of course, it is very undesirable in a matter of this kind to distinguish between the Secretary of State and the Government of India. I mean in a sense they are one, but perhaps it would prevent or minimise misunderstanding if I explained that when the Secretary of State forms his budget for the year he relies entirely on the Government of India for an estimate of revenue. If the Government of India says "We estimate the opium revenue at so much," the Secretary of State does not question it. I think you will probably agree that he is wise in not questioning it; so that what I should say, and I think it is an accurate statement, is that these excesses of revenue were not foreseen by the highly responsible and capable officers of the Government of India who prepare the Budget. It is probable that they could not be foreseen. You know that in preparing a budget one's personality does play a very considerable part.

78. That is sufficient for my purpose at the moment. I understand from that that the balances were not raised to this amount of set purpose?—No.

79. But were brought to it by accidental causes which had not been foreseen?—Yes. I ought to say that so far as money was kept in the balance from say, the end of 1910 to some time early in 1912 in order to be used then for paying off debt, to that extent it was voluntary and deliberate, and for reasons, and I think adequate reasons, which are set forth in this despatch of Lord Crewe's of December 1910, but except for that, as you say, the high balances were involuntary.

80. As regards the division of the balances between India and London, what determines the amount of the balance which is kept in India; I mean the proportion of the balance?—There, again, I think Mr. Gillan will agree with me, but of course he may wish to correct me. The Secretary of State, in making his budget, which involves, among other things, drawing money from India, says to the Government of India, "How much can you spare?" because, of course, you would never dream of drawing from India more than the Government of India could spare; but I fancy that of late years the Government of India have, and, as far as I can judge, very wisely, rather raised their estimate of requirements. I fancy that Sir James Westland, who was a very eminent Comptroller-General, used to be very proud of being able to say, "I can work the business of the Government of India on eight crores of rupees, at any rate as a minimum," which comes to between five and six million pounds sterling. Nowadays I think the Government of India always say to the Secretary of State, "You must leave us a closing balance of twelve and a half millions or thereabouts," and the Secretary of State has always accepted that; it is the kind of thing he would never question. If one says, "What is it based on?" I can only say that I presume it is based on actual experience. In some of those papers you will notice a discussion of the sort of experience upon which an estimate of the balance required can be fairly based. In one of Sir James Westland's papers you will see that (pp. 42–7).

81. Speaking generally, do I understand that you keep in India what the Government of India consider a reasonable minimum balance?—I do not know whether "a reasonable minimum" quite hits it off. I should say "a reasonable balance." I mean I would not think it is right, if I may use the expression, to cut the Government of India to the bone—to bring down their balances to such an extent that there would be a danger of inconvenience to them. I should say "a reasonable balance" rather than "a reasonable minimum balance."

82. But substantially you keep as much of the balance as you can in London?—No, we do not keep as much as we can in London. That really is a very important distinction. We bring to London as much as we can without inconvenience to the Government of India, not in order to keep it there, but in order to spend it there, and I think you will see that it is very important to distinguish between those two things. Supposing that in a certain year the Secretary of State decided that he could bring over two million pounds more than someone else thought that he might bring over, the effect of his doing that, if he conducted his affairs in the way in which Secretaries of State usually do, would not be that he would end the year with two million pounds more money, but probably that he would end the year having either borrowed two million pounds less for his new railways, or having paid off two million pounds of temporary debt, or something of that sort. I am very anxious, if I may say so, more especially in view of a good deal of misunderstanding that has arisen, to emphasise the difference between bringing over as much as the Government of India can spare and keeping in London as much as they can spare. I think I have made the difference clear.

83. I think I understand. Is this correct: That you keep what is considered by the Indian Government a reasonable balance in India?—Yes.

84. That you transfer everything over that figure to London; but that by the end of the year, subject to such contingencies as you have described to us a little earlier, you expect only to have a reasonable balance in London also?—That is so.

85. Having employed the other money transferred to London from India in the interval on behalf of India in place of fresh borrowing?—Yes.

86. In paragraph 13 of Appendix I. you speak of alternative possible methods of dealing with Government balances in India. The first you say would be to increase, either with or without interest, the amounts placed with the Presidency banks?—Yes.

87. I gathered you are not in favour of that course?—I would not quite accept that; and before I speak about this may I say what I think will be clear to you, that although I come as a representative of the Secretary of State, what I say is not to be taken as an authoritative statement of his policy? Lord Crewe has very kindly allowed me a certain latitude in putting my own opinion, so long as I do it with discretion, on some points which are necessarily matters of opinion.

88. We will take your opinion in this matter as the opinion of a person of great experience?—It is very kind of you. As regards lending to the Presidency banks, the important question is whether they are strong enough to be recipients of much larger sums of money than they now hold. I should like to say that I have no clear opinion upon that subject myself. I think it is a question of the most enormous difficulty to say at what stage it becomes unsafe for a very big customer or depositor with a bank to increase his deposit with that bank. I was anxious, though I do not profess to give exhaustive figures, just to give you some figures which might be helpful to you. I am departing, I may say, a little from the order in which that memorandum was written, but I think this oral order is a little more logical. If you look at these figures, which are given in paragraph 15 (2) of Appendix I., you will notice that the percentage of government deposits, both to cash and to capital reserve, are much higher—may I put it in this way—than you would expect the percentage of any one customer of a bank would be in this country. At least, I think most bankers would be rather surprised to find in this country that they owed a particular depositor say 30 or 56 per cent. (to quote figures which I notice) of their total cash; but though I think those figures ought to be borne in mind, I do not say that they are conclusive. I feel really very much my incapacity to form a very definite opinion upon the subject. I would draw your attention in passing to the middle column, "Bank of Madras, 1911, March." If you will notice the figure there, the percentage of government deposits to cash is 121 per cent. I think that at that particular time it would not have been a good thing to lend more government money to the Bank of Madras: but I merely mention this as one of the subjects which would have to be considered and about which a conclusion would have to be reached before the Government placed large additional sums, especially without security, with the Presidency banks. Then if that question is settled, I mean if it is considered that large additional sums may be placed with the Presidency banks, then I was rather interested, and I have ventured to go beyond what has ever been said in the India Office upon the matter, in regard to what should be the source from which the money should be provided, and suggested that the source should be the paper currency reserve.

89. We will not open that question just now. I understand that you do not wish to express a decided opinion as to increasing deposits with the Presidency banks, either for yourself or for the Secretary of State?—No, I think it is eminently a question which wants very full consideration, much fuller consideration than has been of recent times given to it in the India Office.

90. Has it been proposed to you from any responsible source?—I do not think so. Of course, we are very often in communication with the Government of India on this question, and we note their statements and their replies, and naturally we are very much influenced by their views upon such matters. I think I might draw your attention to what the Government of India said quite recently in this Memorandum on India Office balances; it is a paper which we presented to Parliament.* We mention there that on September 18th, 1911, when the Financial Member of the Government of India was asked at a meeting of the council—the question did not directly raise the making of loans to the Presidency banks, but I think you will find that the answer did—whether the Government would lend to the money markets of India when their balances were high, he said: "The Government "of India leave considerable sums out of their Indian "cash balances on deposit with the Presidency banks. "They do not consider it advisable to make a practice "of lending to the money markets in India in any "other manner or to any larger extent." Of course, the Government of India is the most authoritative and responsible adviser for the Secretary of State in such matters.

91. That is a strong expression of opinion against it; you have had no strong expression of opinion in its favour?—Well, the newspapers are very full of it, and a good many individuals, to whose opinions I should attach much importance, have often said to me that we ought to do something in that way.

92. Perhaps we had better wait until we have one of those witnesses before us?—I wanted at some time to mention, because I think it will be useful to you, a further expression of opinion from the Government of India on a similar question.

93. Please do so now?—In a telegram, which is long, and with the greater part of which I will not bother you, the Government of India say to the Secretary of State, "In addition we would remark that, while "we are ready when money is required owing to quite "exceptional market stringency to make advances to "Presidency banks, we have for five or six years past "received no request for loans of this kind."

94. (*Mr. Keynes.*) What is the date of that?—That is 22nd January 1913. Then dealing at the end of this telegram with a large number of questions which were discussed—I think, perhaps, at some time, I might read the whole of it, but I do not want to take up your time now——

95. (*Chairman.*) Can we have it before us*?—It says: "On the points put to us, we think that although "improvements may be from time to time suggested by "experience, the practice now obtaining is generally "sound, and having regard to the absence of complaints "over a long series of years that responsible opinion "in this country is in agreement with us." That rather emphasises what I read from the memorandum, but it is a little more explicit, and I thought it was worth mentioning it.

96. I gather that you would not suggest lending to any other banks in India?—On that question again I have to plead that my information is rather incomplete. You will notice that in the information I gave you about minor banks the figures were all lumped together; 20 banks with a capital of so much, and deposits of so much. The reason I gave them to you in that not very good form was that the documents from India did not enable me to give it to you in greater detail. I dare say it may be worth inquiring from Indian witnesses whether among the other banks in India there may be some who would be suitable recipients of government deposits. I do not know. I would suggest that that is a point upon which Indian experience might be sought.

97. I think it has been suggested that you might lend money to firms and institutions other than banks. Do you wish to say anything about that proposal?—I would only like to say this, that I have often spoken about it with commercial men and others who have a great deal of knowledge of Indian conditions, and most of them have thought that it would not be a good thing for the Government to lend in India direct to commercial firms. They have mostly thought it would be better to put money with banks and then let the banks have the duty of exercising discrimination and have the responsibility, and that seems to me to be common sense; but otherwise I have no special knowledge of the subject.

98. You spoke at an earlier point of your evidence of the possibility of establishing a central bank, and I think there were some papers which you offered to give

* Cd. 6619.

* *See* Appendix II., page 66.

to us in that connection*?—Yes.

99. Do you think that the establishment of a central bank would largely affect the questions of the balances kept in India?—That is a very difficult question, for this reason. Supposing you had a central bank with a capital consisting of an amount equal to the capital of the present Bank of Bengal plus the capital of the present Banks of Madras and Bombay, of course you would have no stronger body to deal with than you have in the three separate Presidency banks now. But if you had a central bank with a capital of the amount of the respective capitals of the three Presidency banks plus four or five million pounds more, then you would be in a better position to lend money to the banks, and these rather extraordinary percentages, to which I drew your attention, would come down to some lower level; I mean those percentages in paragraph 15 (2) of Appendix I. But the important fact in answering this question seems to me to be that whenever a question of increasing the capital of the Presidency banks has come up (and it has come up from time to time) the Presidency banks have received it, I was going to say tepidly, but I think, perhaps, I ought rather to say frigidly. I have some extracts here, but I do not think it is worth while troubling you with them——

100. I am not now asking about the opinion of the Presidency banks. We shall probably get that better from the representatives of those banks themselves. I was asking for your opinion, or for the opinion of the Secretary of State in Council, in whichever form you like to give it to me?—I think the right answer is, if a central bank had a much larger capital than the respective capitals of the three banks, it would obviously be a safer banking body with which to place large sums of government money; but that answer is almost a mere formal answer, I think, unless one adds that the willingness of the Presidency banks if amalgamated, to add to their capital is very doubtful.

101. In the meantime the Government of India does a great deal of banking business itself?—Do you mean in exchange business?

102. Exchange business, and, apparently, in coming to the aid of trade or the money market in times of stringency, and in a number of different ways?—I think if you asked Sir James Begbie he would say that actually the Government of India does extraordinarily little in coming to the aid of the money market in times of stringency. In the telegram, of which I read you an extract, the Government of India mention that it is many years since they were asked to grant a loan in times of stringency, and, in paragraph 10 of Appendix I., I give a list (I think it is complete, but I am not sure) of occasions upon which the Government of India have done what you say, and the lists ends rather remarkably with the year 1906.

103. But I understand, although the occasion has not arisen, the Government would be perfectly ready to do it if the occasion arose again?—Yes, quite so; but the occasions do arise infrequently.

104. The Government of India does a great deal of business which the Government of Great Britain would not touch?—Yes.

105. In putting that question I wish you to understand that it is a question; it is not a criticism at this stage. I am merely trying to get at your view of the facts?—Yes, what I wanted to say in reply to that is that it is perhaps not strictly accurate to describe what you have just mentioned as "banking business." If the owner of a large sum of money feels that he cannot employ it himself and puts it in a bank, in a way I see what you mean by describing it as "banking business," but perhaps that is not the exact description of it.

106. "Business usually done by bankers," would that meet your view?—No. Supposing that any of us were fortunate enough to have 5,000,000*l.* at our disposal, and we paid it into a bank, which is what the Government of India does in these circumstances you describe, that is not banking business. As a matter of fact, it facilitates the operations of banking as carried out by bankers, but it is what I should call rather the customer's business than the banker's business to pay the money into the bank.

107. As regards the India Office balances, you have already told me that you aim to keep them low at the end of each year, working them down at the end of each year to what you consider a reasonable figure?—Yes, which figure would vary to some extent with the year, but not very much.

108. And is regulated by the experience you have of the average needs?—Yes. One might put it a little more strongly. One knows really in March, what one will have to spend in April; at least one knows to a very great extent, and you will find when you come to Mr. Badock's figures* that actually in the first days of April we do have to spend enormous sums of money; so that that is the governing consideration in fixing this balance at the 31st of March.

109. How far do the gold standard and paper currency reserves affect the amount of the India Office balance?—I should say that they do not really affect it at all. Of course, certain sums pass through the India Office balances on their way to the gold standard reserve or the paper currency reserve, but it is a mere passing through. I do not know if you have this in your mind, that in the same way as we lend our India Office balance proper we usually have a million pounds on account of the gold standard reserve lent to approved borrowers, but, subject to that, I should say that those reserves which you mentioned are quite distinct from the India Office balance.

110. With regard to council bills and transfers, when did the practice of selling council bills and transfers begin?—I think it was 1862. I have not myself looked into the old papers, but I am assured that that was the case.

111. I understand that you do not propose to give details of these transactions, and that they will be given by Mr. Newmarch of the India Office†?—Yes, of course it is difficult sometimes to distinguish between details and principles, but I do propose to give that sort of information on the subject which is contained in the prints that I have already submitted.

112. Perhaps you can tell us within what limits the Secretary of State is willing to sell bills?—Limits of price, I think you mean.

113. I mean both. I meant, in the first place, limits of amount?—The general practice of the Secretary of State as regards the amount is to sell freely; that is to say, so long as the Government of India could meet the bills without inconvenience to themselves, the Secretary of State would sell to applicants, subject to this: when the demand was large he would like to get a good price for them, and he would be specially anxious to do that because, unless he raises the price, and, possibly by so doing reduces the amount, at times of pressure, there is no probability, or no great probability, of large amounts of gold going to India. I do not know whether you have followed the competition between gold going to India and the sales of council bills; it is a somewhat technical subject.

114. You must assume, please, that I do not come here equipped—that I have to get my knowledge here?—Perhaps I had better say a word about that. When, let us say, an exchange banker has to provide, or, as he always says, "lay down" a certain sum of money in India, there are various ways in which he can do it. One way is to buy a bill or telegraphic transfer from the Secretary of State. Then he pays the money to us, we telegraph out, or we send out the bill, and the representative of the purchaser receives from the Government of India such and such money in rupees. The alternative system, or the alternative open to the purchaser, is to take sovereigns, either from Australia, or from the Bank of England, or from Egypt, wherever he can get them, and to send them to the Government of India, and get rupees in exchange for them, and he gets them then at a fixed price. There are 15 rupees issued for each sovereign, which is 1*s.* 4*d.* per rupee. Of course one cannot speak definitely about costs, because costs are continually changing, but it costs, I should say, one-eighth of a

* *See* Appendix XV., page 355.

* *See* Appendix XI., page 320.

† *See* Appendix VII., page 217.

penny to send to India the part of a sovereign which is equivalent to a rupee. I mean a man who was sending out sovereigns would probably have to pay in gross (including interest) the equivalent of 1*s.* 4$\frac{1}{8}$*d.* per rupee, so that if the Secretary of State were always selling his bills very freely and in large quantities no one would ever send out sovereigns, or very few people would send out sovereigns for currency purposes, or for exchange purposes, and the Secretary of State has to try so to sell his bills as not to interfere with the flow of gold to India to a reasonable amount. I do not know whether I have made that clear?

115. I am not sure that I entirely follow what in practice that amounts to. I said: What are the rules with regard to the sale of these bills; to what extent is the Secretary of State willing to sell? Is the answer: To such an extent as does not prevent the reasonable flow of gold to India?—I say that is one of the conditions to which he has regard in fixing the actual amount of his sales from time to time. That is not the only condition, but that is one of considerable importance, which I mentioned here more especially, because some critics have imputed to the Secretary of State principles which he does not hold, and which he does not follow in this particular matter. But I should say then, if I have made clear the point about the competition between gold and bills, that the Secretary of State generally sells freely, so as to meet the demands of trade, subject to not interfering unduly with gold going to India, and causing no inconvenience to the Government of India, who have to pay these bills; and also — this comes to the other part of your question—subject to not selling at a lower price than 1*s.* 3$\frac{29}{32}$*d.* per rupee, and I ought to mention, to make it complete, that he has given an undertaking to sell, without limit, bills at the price of 1*s.* 4$\frac{1}{8}$*d.* per rupee.

116. Then the amount of his sales is regulated not by the amount of his own requirements, but by the amount of the trade requirements of India?—I think that is about 90 per cent. true, if I may put it so. I mean when an estimate is drawn up of what will be sold in the course of the year, his own requirements are what are mainly considered in drawing up the estimate, and I think, to some extent, at some periods of the year, the attempt is made to make the actual transactions conform to the estimate; but I do not think it is a very vigorous attempt, and supposing one finds, as the year goes on, that the Government of India can meet bills freely, and that there is a very great trade demand for bills, and at the same time there is a sufficient amount of gold held by the Government of India, so that people cannot say that the internal circulation of gold is being starved, then the Secretary of State would sell freely, and would gradually come to be guided by the trade requirements, rather than by his own requirements for expenditure.

117. The governing factor would not, in that case, be the amount which he had to transfer from India to England?—No, as the year went on, he would gradually, towards the end of the year, which is the busy season of the year, be guided by the other considerations which have been mentioned.

118. Then do you think that that is business which might fairly be called banking business?—Yes. When you asked whether the Government of India did banking business, your question came at a moment when you were discussing what you may call the deposit side of banking business, and I think my answer was that I did not think that the Government of India did much of that kind of banking business, but that they do do exchange banking business; so that my answer to your present question is in the affirmative.

119 Would you see any advantage in transferring that business to a bank, or to a great central bank, if they were able to take it?—I hope later on, if you wish to hear me on the subject of a bank, to deal with that question more systematically, but perhaps I may say this at this stage, that although the Secretary of State has never considered the matter, and indeed when considering the question of a big central bank has always left the exchange question, I mean the question of transferring exchange business to such a bank, out of consideration, still I personally see some advantages in letting business of this sort be done by a bank, subject—and I want to say this at the earliest possible moment, so as not to give rise to any misunderstanding—to a very large degree of government co-operation and control, which I think would be necessary before such business could be entrusted to a bank.

120. If it can be done, do I gather that you would think it desirable to do it?—On the whole I rather like the idea. Whether the Secretary of State would like it I cannot say, but I have made clear to what extent I am speaking of my own opinion.

121. (*Lord Faber.*) There are a few questions which I should like to ask you. Some of them are no doubt due to my ignorance. You began by saying that India in the last two or three years had found it much more difficult to borrow, but I apprehend that that does not apply to India alone. That is general; all gilt-edged stocks have fallen?—Certainly.

122. India's credit is as good relatively as it was?—I am the last person in the world to wish to answer that in the negative, but I am afraid you will find if you compare Indian stocks say with Colonial stocks or London County Council stocks, and so on (which I think you will agree is a fair comparison), that India has rather gone down. My recollection is—but this is a very rough observation—that at one time Indian stock stood about half-way between London County Council stock and Local Loans stock, all being 3 per cent.

123. I think you are right there. My impression is (and, of course, as a banker one comes across these things very frequently, and the reason of them), that by the treatment which was meted out to some of these railway debenture holders, when they were paid off under the Madras Railway arrangement, for instance, and other big things of that sort, the shareholders thought they had been hardly dealt with, I do not say unjustly dealt with, but hardly dealt with, and that rather, perhaps, hurt Indian credit?—Of course you only put this in incidentally, but would you allow me to say that I do not think that is the real explanation. I should be very sorry to raise controversy, especially on things that are unessential, but I do venture to think that such troubles as we have had with railway companies have been very amicably settled, that any grievances have been forgotten, and that after all these transactions to which you referred had taken place, India stock stood at the level which I mentioned, half-way, say, between County Council stock and Local Loans stock; and since then, when no new railway controversies have arisen, India stock has rather gone down, and I think that the explanations are really fairly obvious. One is that India has issued very large amounts, whereas the County Council has thought fit practically to stop its issues of stock, and the other is that, as is notorious, there is a certain amount of uneasiness; I mean people read about the sedition, and so on, and that is a point against India stock.

124. Then, in answer to our Chairman, you rather astonished me by saying that if there is a surplus in the budget of any year it is not used to pay off debt, but it is carried forward, I conclude. Do you not think that that is a bad principle? At home we always think that it is a safeguard, as I think Mr. Austen Chamberlain will tell you, that a Chancellor of the Exchequer, if he budgets for too much, cannot take advantage of that surplus, and therefore a Chancellor of the Exchequer has no reason to budget for more than he wants, because he cannot use it himself. Now, here you budget for too much, and it is apparently owing to that that you have these big balances?—Yes. As a matter of fact, no one regrets more than I when there are striking differences between budgets and actual results. I mean it is unfortunate that one cannot foresee the future; but, of course, the circumstances in India have been such that foresight was really extremely difficult, if not impossible, for some years past. But, as regards the disposal of this unexpected surplus, which was the main object of your question, if in a certain year one wants six millions for capital expenditure—I take that as an illustrative

figure—supposing that at the beginning of that year you find that you have an unexpected balance of four millions from the previous year, I do think that you will agree, on turning over the matter, that there would be no great advantage in first of all spending that four millions on buying up and paying off four million pounds worth of India stock, and then perhaps a week afterwards—I put an extreme case—issuing six millions in India stock. The neater and more economical way seems to be to use your four million pounds for capital purposes, and to borrow two million pounds.

125. You mentioned Lord Northbrook's fears in 1874, I think it was, and you read to us certain strenuous agreements which were made with banks regarding the government deposits. I would ask you this question: In time of great stress do you think an agreement is worth anything at all if the cash is not there?—I might answer that question rather briefly, but it is more courteous to put the real facts, I think. The Government of India has, I think, never failed to keep with the Presidency banks the full amount which the Presidency banks may reasonably expect. What has happened from time to time is that the Presidency banks have wished to have extra amounts kept with them, or to have a high balance which existed at the moment allowed to continue for a long time, and then differences of opinion have arisen. You will notice in Lord Northbrook's instance that the Government of that time had with the Bank of Bombay one million pounds sterling, which was much more than the bank could expect, and in that instance the Government proposed to withdraw 350,000*l.*, leaving 650,000*l.*, so that the demand for exceptional treatment was on the side of the bank, which wanted more than usual.

(*Lord Faber.*) I am rather alluding to such an instrument as an agreement with a banker. I speak now as a banker; an agreement with a bank is of no use if the bank has not the money to pay back the deposit; the only thing which is of use is to give security, and without security the agreement is worth nothing.

126. (*Chairman.*) May I interject to make the meaning clear? You were defending the Government of India against a possible charge of not fulfilling its obligations to the bank, but Lord Faber was asking as to whether the banks would be able to satisfy their engagements to the Government of India?—I see. Under existing circumstances and the existing agreements, the banks can fulfil their obligations. Since 1874 the only breeze which appears to have arisen was in 1888 or 1889, when an incident occurred, which is mentioned in the papers I have put in (*see* Appendix II., page 41). At present the banks can habitually fulfil their agreements and obligations to the Government.

127. (*Lord Faber.*) The Chairman, I think, has well put my point. My point is: Is an agreement worth anything? Security is, but is an agreement without security?—I am not sure that you do not overestimate, or that I have not led you to overestimate, the importance of this agreement. *Prima facie* the object of this agreement is to settle the remuneration of the banks. It is not really to settle the relations of the banks as banks, and the Government as depositors. The agreement settles such rather trivial points as whether the banks, say, shall have 800*l.* or 1,000*l.* a year, and from that point of view I quite agree with you that the agreements are not very important.

128. Then I will ask you three direct questions: Are the deposits with the Indian banks secured?—Do you mean the Government deposits?

129. Yes, the Government deposits. Have they security? Let me give you an instance: If the London County Council have a big deposit with a London bank, the London County Council get security from the bank. The banks do not like it, but so it is. Do the Government of India get specific security?—No, they are merely general depositors with no specific security.

130. Are the London balances which are lent out here lent on security when they are lent to banks in London? I know they are generally lent on security, but when you have deposits at banks in London do you take specific security from those banks?—I think that there have been one or two banks—I mean joint stock clearing banks—which gave security. But generally the answer to your question is that the deposits are not against security; they are general deposits.

131. You were asked about loans to provincial governments. Merely as a banking question, I quite think, with the Chairman, that when the Government is under agreement to find cash for, say, Assam, they should mention it in their balance sheet to show that these balances are held subject to an agreement to lend Assam, or whoever it may be, half a million of money, or something of that sort?—But may I say this?—perhaps I did not make myself clear. All this information which, as you very truly say, ought to be in the government accounts, is there already.

132. Thank you. I did not understand that?—If it were of any interest to you—it probably is not—I could show you in any annual statement where the exact amount is given.

133. That was not quite clear to my mind. Government balances were increased, you told us, because a certain amount of money was not spent on railways which had been budgeted for. Can you tell us, for my information, why that was not spent on railways?—I am sorry to say that that is a subject of continual discussion. We are always asking railway companies why they do not spend all their amount. As a rule they say—I do not think they really mean it—that it is because the Government does not tell them early enough in the year how much there is to be at their disposal to enable them to make arrangements in time. There is a natural tendency, and it is quite proper, to put the blame for everything on to the Government in the first instance; but then they very often go on to say that this year there is a coal strike, another year there is a railway strike, which hinders the transport of material, and so on, or another year that the manufacturers are so full of orders that all the orders get delayed, perhaps two weeks or three weeks, and you get in April, that is to say, next year, what you ought to have got in March, this year. They are all the general explanations which I think would occur to anyone.

134. Not quite satisfactory from a business point of view, are they? I mean here in England we had a great coal strike last year, much bigger than they have ever had in India, and we still go on with our capital expenditure on railways?—Pardon me, these failures to spend up to to the full amount occur to a great extent in England. If we want a locomotive, or rails, or bridgework, or anything of that sort, for an Indian railway, we buy it in England. When I spoke of the coal strike I meant the English coal strike.

135. I should have thought there was much more delay in India in this thing than there was in England, for instance. However, I will not press that. I have very few more questions. For my information again, why is it more important to pay off bonds than bills? What is the difference between the two?—There is this difference: When you have a bond maturing, or, at any rate, the particular kind of bond to which I have referred, you really have to pay it off at its date. If you made efforts to renew this particular sort of bond, it would be a very curious thing indeed to do; but when you are dealing with India bills it is the most natural thing in the world, if it is not convenient to you to pay them off, to go on renewing them. The Treasury goes on renewing Treasury bills automatically until it happens to wish specifically to pay them off. Now, if I may, I will put in a word of explanation about these bonds. They are of two kinds. There were first of all a great number of debenture bonds that had been issued by various railway companies—the India Midland Railway, for example, or the Madras Railway—and while the railway continued in existence, it was the most natural thing to renew the debenture bonds from time to time on terms agreed between the holders and the railway company; but when the railway company goes out of existence there is really no one who can renew the bonds; the railway company is dead, and the Secretary of State has taken over its obligations, and it is for him, when a particular obligation matures, to meet it and to pay it off. He cannot go on renewing as the company would have done. Then the other sort of

bonds that we have to deal with is what are called India bonds. We issued four million pounds, I think, half a million pounds to mature every year for eight years but it is part of the terms of issue that the holder is the holder of a gradually decreasing security, and that is a great advantage to the holder. If, having issued on those terms, we made terms for renewal with the holders of half a million pounds' worth that were due to be paid off in one year, that would be an odd thing to do, which you would not recommend.

136. I listen with great interest to what you say, but I should have thought that it did not matter two straws whether the Indian Government issued a bond or a bill; their security covers both, and they are both looked upon as A 1 securities in this country?—Yes, that is true, but it is a rather different point that I am making. Supposing that an India bill matured at a certain time, you would never think it odd that we should renew it if it were not convenient to us to pay it off.

137. Of course, you would be obliged to pay the bond off if the holder wanted it; I know that quite well?—Now let me put this point: Supposing, in respect of these India bonds of which I have been speaking, instead of paying off by lot at the right time, one went to the holder and said, "It is not "convenient to us to pay what we have contracted to "pay; cannot we make some private arrangement that "we are not to pay?" it would surely be an odd, and in the technical sense—I do not mean in the moral sense—a discreditable proceeding, discreditable in the sense that it would not be good for our credit.

138. I am afraid I have troubled you at great length, but this is my last question. Should the Government do what the Chairman has called, and I think rightly called, all this banking business such as exchange, large deposits on security and unsecured, gold standard reserve, and all this gold coinage; should not that be done by what we should call the Bank of England in England? Should Government officials be called upon to carry out what is absolutely and wholly a trade in itself which takes a lifetime to learn?—I should like, if I might, to answer your points one by one, because what applies to one branch of business does not always apply to the other. I think you mentioned exchange.

139. I did?—And the amount of balances.

140. Yes, on security and unsecured: and then what is called the gold standard reserve and gold coinage?—May I very briefly answer them one by one, because they are very different businesses. As regards exchange, it is done, I will not say automatically, but with so near an approach to automatism that I do not think there is very great advantage in the Government doing it. Although, as I say, I do not know whether the Secretary of State would agree with me or not, I do see certain advantages in transferring that business to a bank, if a bank can be established under suitable conditions. At some time I shall have an opportunity of mentioning why I think a great deal of Government control would be one of the conditions. As regards lending balances, here again, in my private judgment, your remark has its greatest force and applicability in its relation to that particular branch of business. As you know, a Government official, like me for example, can never acquire even a moderate knowledge of that sort of subject, and it is not desirable that any Government official should give his mind to it. He has other and different things to do; but, of course, you know that we have the great advantage of very distinguished bankers inside the India Office who do supplement the deficiency of the Government official in that way.

141. Will you tell me whether you think that in India there is scope to lend these great balances on gilt-edged securities? Can large balances be lent in India, or would it be better to transfer them to England? If you can do it in India it would be better, but can you?—You raise many big questions. If you suggest the advantage of transferring balances largely from India to England because they can be better lent in England, then I say you must not overlook the possibility that the lending of balances in India might be very useful at certain periods for Indian trade, and if the Government of India could help Indian trade in that way without any risk of impropriety it would be an excellent thing.

142. I merely say can they do that, because at present you do not appear to be able to get security even, which astonishes me?—If your question is directed to this, that any such lending of Government balances can be better done through a bank than through a Government official—I do not know whether I am right in understanding that that is your point——

143. No, I am more on whether it is possible either for a Government bank or a Government official to lend large balances on security in India?—I think that that must be judged by experience. I can certainly say that the Government does deposit with the Presidency banks, to the great advantage of both parties, I should say, sums which I should call large—at any rate, appreciable sums.

144. But it does not carry out my fundamental principle. I said "on security"?—No, I do not know how far the Presidency bank would be prepared to give security. I should say probably, since it has enjoyed the balances for so many years without security, it would not like to change at this moment.

145. Thank you, I am much obliged?—May I just remark, in answer to a point of Lord Faber's, which we rather overlooked, that I see great force, naturally, in all that he says about the Government not being a suitable body to do exchange business, lending balances, and so on, but I do not think that applies to the other two points he mentioned, namely, the gold standard reserve and gold coinage.

146. *(Sir Robert Chalmers.)* Following up Lord Faber's question, if security were taken from the Presidency banks, that would be Indian securities of a rupee character?—The Presidency banks can, as a matter of fact, invest their funds in Consols and all sorts of things. I do not know if you are at all interested in the limitations of their business, and what they may do, and what they may not do. If you are I can tell you.

147. The point I want to be clear about is whether, if you get the security and hold it in considerable quantity, it would be possible to realise that security in an emergency?—No; in that Memorandum which the Secretary of State published,* he mentioned that point. One of the difficulties of lending on security in India is that if you had rupee paper and had great quantities of it, it would probably be difficult to realise it in an emergency. On the other hand, you must not, if I may say so, exaggerate the importance of that point, because, if you do your lending well, the occasions on which you do have to fall back on your security, or what some people call your collateral, are very very infrequent indeed. I think that Mr. Badock will tell you that in sixty years we have only had to do so about twice or three times in the India Office.

148. The object of the Government, either here or there, is not to create balances. The balances come to them, and they wish to keep the balances, as I understand from you, as low as they conveniently and reasonably can?—Yes.

149. That is so?—Ordinarily.

150. That applies to India and to London?—That is so, subject to this, that if you have in front of you a year with very large disbursements, you might like to open that year with a sum above your usual opening balance.

151. It is rather forced on you?—It is rather forced on you, yes.

152. But you do not create balances for their own sake?—Certainly not.

153. As a matter of economical working, especially as you are a borrowing authority, borrowing on bills, your object is to keep your balances down?—Yes, it is to keep the balances to the amount required, neither more nor less.

154. Required for your own purposes?—For the purposes of India.

155. For Government purposes?—That is so, yes.

* Cd. 6619, page 5.

156. Therefore you do not like to have any balance generally available for lending out for the support of the market; that would be an incident?—Are you speaking now of the market in India?

157. Yes?—I do not think I would go quite so far as you. I think you have to realise this, that in India there are so many uncertainties, what with monsoons, which are apt to fail at the critical moment, that you do have to keep, and it is wise to keep, a rather liberal balance, a more liberal balance than you at the Treasury would keep, in view of the possibilities of bad times. Probably in five years out of six you would be able to lend something—I do not say on a great scale—if you so desired; and if you care for figures, which probably you do not wish to have, you will notice that in the reserve treasuries—they are what you might call the temporarily immobilised balances—there are appreciable sums, as a rule.

158. Of course, that would be the case in five years out of six?—Yes.

159. What about the sixth?—That, of course, is a very difficult point. If you were lending out of your Treasury balances, you might find in the sixth year, when everyone was very anxious to borrow from you, that you had a famine, and a frontier campaign, and difficulties of that sort, and that just at the moment when people wanted the money you could not let them have it; and I may say that that was one of my reasons for mentioning the paper currency reserve as a much more trustworthy source, if you are to lend, at all, than the Treasury balances.

160. As to council bills and the removal of the duty of selling councils to a bank or banks, that would cost a little more?—Yes.

161. And so that would be popular with the recipients of the extra cost. What particular gain do you think would come from introducing banks into this business of selling councils?—The gains are not very substantial, but I think there are some. Just let me mention one or two. Of course, we in the India Office, as I dare say you realise, are not in any cowardly sense afraid of criticism. We often feel that we have to face adverse criticism in the discharge of our public duty, but *primâ facie* if there are two methods of doing a piece of business, one of which may expose you to criticism, and if I may say so without disrespect, occasionally to partisan criticism—I mean party feeling even in Parliament is strong—and then there is another method of doing business which is likely to avoid that criticism, the second method has, so far as it goes, an advantage. If the Secretary of State sells five million pounds extra bills in the year there is always a possibility that he may be criticised. I do not say that it is very serious or that he would be much hurt by it. If the Bank of India, corresponding, say, to the Bank of Japan, sold five million extra bills in the same year, and in the same way, people would probably say, "Of course, these masterly bankers know their own business," and there would be advantage in the avoidance of criticism. It is a point of perhaps much greater importance, that this selling of bills by the bank would go with the transfer of other Government business to a bank. I mean if it were a question of merely transferring to a bank the sale of council bills and nothing else, then the only advantage would be the one which I have mentioned, and on that account it would not be worth while doing it, but if you added to it the transfer to the bank of the lending of balances both in England and India and with certain other advantages, then the cumulative effect might be considerable.

162. It is rather a big question that I put to you next: What do you think is the relation of the Indian money market to the London money market? Is it subsidiary, or ancillary, or what?—It is extraordinarily difficult to tell. I should say, as far as I have been able to judge, that there is very little in the way of sending banking money from London to India in the same way that a rise or fall in the bank rate might cause a transfer of funds between London and Paris, or London and Berlin possibly. I should say that except for their necessary connection as being countries which do trade with one another, the connection between them is extraordinarily slight, and much less than people expected 15 years ago when you and I had the privilege of listening to the discussions of the Fowler Committee. They then thought that there would be a continual flow of banking money, because a bank would say, "There is a good opportunity "for getting a little more interest if we send our "funds to India." I do not think, as far as I can judge, that there is much of that.

163. Is "the Indian money market" a term which applies to traders with the West in the main? Does the Indian money market include the supply of funds for natives engaged in the ordinary operations of agriculture and trade, or is the latter domain really in the hands of entirely different people of a merchant character?—I should say, but of course Sir James Begbie knows a great deal better than I, that his bank would probably have a vast number of Indian customers I should expect, though I do not know, that probably most of them were engaged in trade.

164. Parsees?—No, the Parsees, as you know, are a very tiny community. I should expect that the connection of the big Presidency banks with the natives of India was very widespread, and I would add that the Presidency banks lend on what you might almost call agricultural security. They had their powers enlarged so as to lend on estates which are under Government management, and so on. I think, so far as I follow the exact scope of your question, you regard what is generally called the Indian money market as having a much narrower scope than it actually has, but I say that subject to correction from people who get their knowledge on the spot.

165. So far as your observation and experience have gone, there is remarkably little connection to-day between the London money market and the Indian money market. Is that your opinion?—I am speaking of the special connection which I thought you had in mind, namely, the transfer of funds by bankers from one market to another in order to employ the fund more profitably. Of course, as you know, the sale of bills, not only council bills, but mercantile bills, is on an enormous scale, and in a sense each such sale is a bond of connection between the two money markets But I do not think that is what you were referring to.

166. Do you think that in India there is a greater community than my question might have suggested between the financial interest of the ordinary agriculturist and the Anglo-Indian trader—that they all have reference to the same market, and that there is not a lower domain there where the Mahájan is dominant?—Now that you speak specially of agriculturists I should think that the agriculturist probably dealt with Indian financiers——

167. He would be outside what we have been previously calling the Indian money market?—Yes, I should think so.

168. Therefore it would come to this—that if you did, as you do not want to, accumulate large balances in India and lend them out to what is called the Indian money market, it would be a small section of the Indian interests and population which would be benefited?—I think that that, if I may say so, is almost—may I use the word—over-ingenious. May I just put what I think the answer would be from the point of view of a person who took the opposite view from you? He would say, It is quite true, one lends to, one might almost say Sir Ernest Cable's firm, and Sir Ernest Cable is one individual European, but then that firm may go half over the Province of Bengal buying jute, or whatever that firm happens to buy, bringing happiness and prosperity to thousands, hundreds of thousands, millions, of producers; so that by making the operations of the European firm easier, you have very closely and beneficially affected vast quantities of the poorer Indian agricultural population.

The witness withdrew.

At the India Office, Whitehall, S.W.

SECOND DAY.

Thursday, May 29, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
[Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

169. (*Sir Ernest Cable.*) You must have noticed the criticism from time to time of the Secretary of State's action in selling your bills below 1*s.* 4*d.*?—Yes.

170. You mentioned at the last meeting that this was sometimes done when it has been stated in letters to the Press it was unnecessary; perhaps you might like to make a statement on that point?—I do not think that it has been very much criticised, but I think that the considerations relating to it are these: When the Secretary of State has no great immediate necessity for selling bills, I mean when he has sold in the year up to his requirements for that part of the year, he need not and he does not sell below 1*s.* 4*d.*, and in the last two or three years it has been a very exceptional thing to sell below 1*s.* 4*d.*; but, of course, there are times when it is very desirable that he should get home from India the money that he requires for his expenditure here, and it would be undesirable to set up very restrictive rules which might prevent him from selling bills to the extent that he needed. So he allows himself, and I think he ought to allow himself, some latitude; and the only serious question is, I think, whether you can define with any scientific precision what the latitude should be, so as not to leave it too much to the uncontrolled discretion of the Secretary of State. Really, I think you can define it with the utmost precision. The proper rule, I think, is that he should sell at such a price that it is more profitable to him to sell at that price than to take the possible alternative course of bringing gold home from India. If he bought sovereigns at the rate of 1*s.* 4*d.* for each rupee and then brought them home from India, paying about $\frac{1}{4}d.$ for the cost of freight and so on, he would get for each rupee about 1*s.* $3\frac{7}{8}d.$ net. What he actually does is never to sell cheaper than 1*s.* $3\frac{29}{32}d.$, so he allows himself no undue latitude, and it cannot be said that in any sense he is depreciating the rupee by selling at that price when his general circumstances make it desirable that he should get money home.

171. Throughout your evidence at the last meeting you rather implied that the Secretaries of State could not have borrowed more money than they did during the last few years, and that it was only, I think, owing to heavy surpluses that the necessary funds were provided for the development of the country. Of course, it is obvious that you cannot continue to count on these windfalls?—Quite so.

172. And the question, therefore, of raising more money by loan is becoming urgent?—Yes.

173. Have you considered the question of raising your interest to 4 per cent., because apparently it is impossible for you to raise more at present rates?—In a certain sense we have raised our rate of interest to more than 4 per cent. The latest issue that we made was an issue of Guaranteed Debenture Stock of the Madras and Southern Mahratta Railway, which was to all intents and purposes a Government issue. The nominal rate of interest was 4 per cent., and the issue price to the public was 99, so that we paid a trifle over 4 per cent. there. If you wish me to say anything generally on that subject, all I can say is this: The Secretary of State has for years been recognising that year by year he must pay a little more interest on the money that he borrows than he used to pay, and that it is to the advantage of India that he should not restrict his borrowing unduly in order to avoid this slight increase in the rate of interest. But what he has felt, and it is really the most difficult and important branch of Indian finance, is that he must not be too forward to borrow great sums so as to make the value of his stock go down with great rapidity or to make the rate of interest go up with too great rapidity—the two things come to the same; because if he did so, I am afraid he would make his stock so extraordinarily unpopular with people who have bought it at one price and found it has gone down 10, 20, or 30 points, that he would not really increase the supply of capital in India. If you go on following that path long enough and steadily enough, you may find yourself the object almost of a boycott.

174. The only thing is that the sterling price of Indian securities just returns about 4 per cent., or slightly under now, does it not?—Yes.

175. So present stocks would not be depreciated if you issued a new stock at 4 per cent.?—Of course, you have banking authorities here. I should say, to take a rather big case, supposing we issued a 10 million loan on the 4 per cent. basis, you would see in the newspapers for several days, "India Stocks were very easy"; and if one did it two or three years in succession, India stocks would be very easy indeed.

176. I only brought it to your attention because this is one of the great needs—to secure money for the development of India?—Yes; I cordially agree with you. The difficulties are very great, and we never overlook them in the India Office, and we are quite with you that it is one of the great needs of India to get money for development.

177. You were saying in your evidence at the last sitting that the Secretary of State in selling his bills was careful not to hinder the net absorption of gold by the people. Referring to paragraph 40 of Appendix I. it seems to me that you have there estimated the probable consumption for the future almost entirely on the basis of the past. You have taken an average of the past. Do you think that is a correct way?—You must not, please, attach too much importance in the way of precision to those few lines at the end of my memorandum. What I wanted to bring out, and what the figures do bring out, is that there is a very large stock of gold in the Government Treasuries in India at the disposal of the public if they care to have it. I said that this sum of round about 20 millions is a $2\frac{1}{2}$ years' supply on the basis of the average for four years. Supposing that one disregards

that altogether, and says that on the basis of the demand in 1912–3 we had at the end of the year considerably over 1½ years' supply, that would be equally effective for the particular purpose for which I made the statement, and it would meet your criticism.

178. I suppose the India Office would agree that one must not run that too fine; you do not want to prevent gold from going to the people, do you?—You do not want to prevent that. The India Office has always been anxious that among other things it should facilitate the sending of gold to India so that the people who want it may get it. But I would say this —that other needs are greater and more important than the supply of gold for use as currency in India; I mean, supposing there were a conflict between that interest and the other interest of having money here to be spent on railway capital purposes, I should say that so far as there was a conflict the latter ought to prevail.

179. In paragraph 30 (2) of Appendix I. you state that the restriction of the sale of Council Bills and the consequent export of gold would adversely affect the balance of trade; perhaps you will explain how that would happen?—What I specially had in mind was that, if great amounts of gold were taken out of the Bank of England and off the London money market with the effect of stiffening up rates here and creating a stringency—perhaps even more than a stringency—I do think that Indian trade would be injured in a number of ways. To take one very obvious method in which it might be injured: When the Indian exchange banks had their bills to discount in London, which you know is one of their ways of supplying funds for themselves, if they found they had to discount at 7 per cent. instead of 3 per cent., they would be less willing to discount and less eager to buy export bills in India and less eager to use their money in India for trade purposes generally; and there would be what I may call an application of the brake to the wheels of Indian trade generally. I think that what I say is in no way paradoxical, and I think most people would hold that that is the case.

180. It is so, of course; but it does make Indian trade rather dependent on the convenience of the London money market?—In a sense; but not in the invidious sense. I should say rather that Indian trade depends, among other things, on the convenience of the customers of the Indian merchant. You may regard Great Britain as one of the great customers of the Indian merchant, and if you do something which rather hinders the customer you rather hinder the seller as well.

181. I do not suppose our other Colonies take such an interest in matters of that sort, do they? You are guarding commerce here rather too much. There is one other thing I should like you to answer. In your evidence I rather gathered that you are against lending surplus funds to the Presidency banks in India; is that so?—I did not wish to give that impression. I always feel that there is so much to be said on both sides that I can be more helpful, at least, I hope I could be more helpful to the Commission by putting before them the facts and the considerations on both sides than by giving an opinion of my own. My own personal prepossession is in favour of the Government being rather liberal in this matter; and I feel very much, when you have, say, 20 crores locked up in the Government Treasuries in Bombay and Calcutta, and then in Bombay and Calcutta there is a bank rate prevailing of 8 per cent. or 9 per cent. and a difficulty in getting accommodation even at that rate, that it is not quite easy to put in a perfectly satisfactory defence of the holding up of these large sums of money. On the other hand, I recognise the difficulties which the Government have always felt about largely increasing their deposits with the Presidency banks.

182. I think I understood you to say that you were preparing a statement for this Commission on the subject of State banks?—That is so.

183. In doing that, would you kindly mention what economies you expect the Government of India to make in the way of their own establishment and so on when they hand this work over?—I will mention that. As a matter of fact, I do not think there will be any economy in that particular respect. I shall probably take the advantage myself of consulting Mr. Gillan on the subject before I write my note; but I do not think there will be much in it.

184. (*Mr. Gladstone.*) Lord Faber, I think, made some reference to the Government accounts with the Presidency banks, and as to there being no security; it is a fact, is it not, that there are special restrictions and safeguards as to the working of the Presidency banks under special Acts?—Yes; and one might almost say rather onerous restrictions. I do not know whether any member of the Commission would like to go through that with me. I did not put it in my statement because I did not want to make it too long, but of course the Commission can have copies of the Presidency Banks Acts—we have numerous copies in the office; and if Mr. Brunyate's memorandum* is circulated also, then you will see what those restrictions are. I may say that among some papers which the Chairman said he would like to have are some papers regarding a discussion as to the removal of one particular set of restrictions — the restrictions on dealing in foreign exchanges.

185. (*Chairman.*) Will you put in a paper† to show us what the character of those restrictions is?—Yes.

186. And also Mr. Brunyate's memorandum which you spoke of?—Yes, I assume you would like at least those two circulated, but I suppose you would scarcely want copies of the actual Acts, because there is so much that is mere machinery set forth in them.

187. It would be more convenient for the Commission if somebody under your directions would extract what is essential for us instead of giving us the whole of the Acts?—That shall be done.

188. (*Mr. Gladstone.*) Is it not the case that the banks in return for the Government accounts do much work for the Government in connection with the Treasuries and other things for nominal remuneration?—Yes; in fact I should put it this way—that the advantages which the Presidency banks get are partly, not entirely, to be regarded as remuneration for work done.

189. (*Lord Faber.*) The figures that you were good enough to set out showed to me as a banker that the banks are well paid, in fact better paid than some of the banks in London?—May I just interpolate this? The view that has always been taken by the Presidency banks is that the advantages which they get are partly remuneration for the work they do, and partly—if I may go back to an ancient controversy—compensation for the withdrawal from them in the '60's of the right to have a note issue.

190. (*Mr. Gladstone.*) In a lesser degree, a much lesser degree, the Presidency banks act in India in relation to the Government of India as the Bank of England does to the Government here; for instance, they attend to the Public Debt?—Yes.

191. And they receive special remuneration for that?—Yes. As far as I can judge, I should think they are fairly well paid for managing the Public Debt. I do not know whether Sir James Begbie would agree, but there is a special section of their remuneration for that specific work.

192. (*Sir James Begbie.*) That is not included in the figures you have given, I think?—No, because I did not think that had much bearing on the particular subject of my memorandum.

193. (*Mr. Gladstone.*) My question was really asked in order to draw attention to the status of the banks, which is something different to that of ordinary banks?—Certainly.

194. They are more on the status of the Bank of England than on that of any other bank?—Yes. They are the trusted and valuable agents of the Government for very important purposes. That is your main point, I think?

* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

† *See* Appendix XIII., page 336.

195. Yes. With regard to the State Bank I understand there have been two propositions; one is the amalgamation and strengthening of the three existing Presidency banks to be carried on very much on the same lines as at present; and another proposal that has been put forward is that the State Bank should have a London office, and I understand that the London office of that State Bank would do a great deal of the work that the India Office now does?—Perhaps I ought to guard myself in this way: When the subject was discussed about 14 years ago the view then taken was that it would be possible perhaps merely to amalgamate the three banks and do nothing further, and it was to some extent on that basis that the discussion proceeded. Speaking quite as an individual and not speaking for the Secretary of State I have been thinking over it a good deal of late, and the more I think over it the less I feel that any scheme which was a mere amalgamation of the three banks would be practical. I fancy that when once the amalgamation came under discussion a further extension of the scheme would probably have to be considered, and would be held by many people to be an integral and necessary part of it. It is only, I think, in that sense that you can say that there is a scheme for extending the original plan.

196. You would recognise, for instance, that the exchange banks would be likely to object very strongly to the Government Bank being allowed to do exchange business, and therefore I assume there would be less opposition to the amalgamation and strengthening of the three Presidency banks on existing lines than there would be to the other proposal?—Yes. I think it is fair to say that there are many ways in which a State Bank would do exchange business. Of course the widest way and the way that the existing exchange banks would most object to would be if the State Bank bought export bills in order to get money in London, and then bought import bills in order to send money back again, and then really went in for exchange business in a very large way. But it is equally possible for a State Bank, if constituted, to do very much what the Secretary of State now does, that is to say, merely to sell remittances on India, bills of exchange on India, to be met from their own funds and to sell them by competition in the same way as we sell Council Bills to the exchange banks now.

197. With regard to the loans given out in London by the Secretary of State, I understand that in the first instance loans are made to approved names against security?—Yes.

198. And that recently it was only when that power was exhausted that large deposits were put with the London joint stock banks without security?—Yes, as a temporary measure. It was always understood as being temporary.

199. Of course you are aware that in the City of London it is quite common for banks and private individuals to put very large sums, hundreds of thousands of pounds, on deposit with the joint stock banks without security?—Yes. I think the instances to the contrary are very few. Lord Faber, I think, quoted one on Tuesday. I do not think there are many cases in which a bank would give security; I mean, it would say, we have depositors for many millions of pounds, and we cannot allow a particular depositor merely because he has a little more than other people to have a specially secured and preferential position. That is their reasoned ground of opposition, I think.

200. Very often there is a difference in the rate of interest if security is given?—Do you imply that security is often given?

201. No, I do not wish to do that?—I should say that generally security is not given.

202. I quite agree. Some reference has been made to the decline in Indian credit. I have a few figures here from the Stock Exchange Official Intelligence which are very short, and which I think it is rather important to bring out. I am sure you realise that, whilst the fall in sterling 3½ per Cent. India Stock from the top of the wave in 1896 to the present date is 32 points roundly, or 26 per cent, the fall for the enfaced 3½ per cent. rupee paper for the same period is only 2½ per cent.?—I have not those exact figures, but of course I am familiar with and very much interested in the fact that rupee paper has not fallen to anything like the extent as India sterling stock.

203. Whilst the 3½ per Cent. sterling Indian Loan in 1896 returned on the highest price of the year 2·87, and at that time enfaced rupee paper returned 3·53, the figures now are Indian sterling 3½ per cent. Loan 3·93 and enfaced rupee paper 3·73. So instead of its being at the present moment more expensive to borrow in India than in England, as it used to be, it is much cheaper on those figures to borrow in India?—Quite so.

204. Of course, I recognise that India is looked upon as a limited market, but I would suggest that the market is less limited than it was, that the country has had prosperous years, that there is less hoarding now than there used to be, and that the natives generally are more inclined to invest in Government securities?—I think what you say is very valuable, and you will readily understand that it is a matter which is frequently discussed between the Secretary of State and the Government of India. You will notice in one of our papers there is a sentence containing a good deal of very sound doctrine. The Secretary of State said on one occasion to the Government of India, you must accept my views about what loans can be issued in England, and I am very much inclined to accept your views about what loans can be issued in India. That doctrine has a good deal of application to the facts that you were just mentioning.

205. With regard to the decline in Indian credit, may I point out that, taking the top of the wave again—1896—whilst Consols have fallen 38 points, or 34 per cent., and, as an instance of a gilt-edged security, London and North-Western Railway 3 per cent. debentures have in the same period fallen 45 points, or 36 per cent., India 3½ per Cent. sterling stock has only fallen 32 points, or 26 per cent. That does not seem to show that there is any decline in the credit of India other than what may be due to general market conditions?—As I said to Lord Faber at the last meeting, I, am the last person in the world to controvert any optimistic proposition of that sort, but the sort of fact that I have been in the habit of noticing is this: You remember I said to Lord Faber that India stock used to be about half-way between Local Loans stock and County Council stock of the same denomination—they were all 3 per cent. stocks in those days. There was usually for some reason a difference of about 10 points between Local Loans and London County Council stock, and then India was 5 points below the one and 5 points above the other. Now India has gone down, I am sorry to say, to about the County Council level, I took that comparison merely because those three stocks are more of the same sort; they are more, to put it technically, in the same market than perhaps some of those that you quote.

206. I think I ought perhaps to say that I did leave out the County Council stock, where the fall has not been so great as it has been in railway debentures; but I do not see that you can take a better guide than the best gilt-edged railway debentures, as they are not open to the same considerations which affect Consols?—I think as regards what is in your mind we are very much at one. I gather that you wish to emphasise that we ought not to be too much afraid of borrowing; that we ought not to be too much depressed by the fall in our stocks, and that we ought not to check India's development for those reasons. I am quite with you there.

207. (*Lord Kilbracken.*) The expression "declining credit" has been used of India; do you accept that expression?—No; I am very glad you intervened. It is a phrase that people use, but I would much rather speak in plain simple language of the fall in the price of India stock. I did not like to call attention to it, because there were other things.

208. (*Mr. Gladstone.*) That is what I really wished to bring out. On the question of loans from the Government of India to the Presidency banks, on which Sir Ernest Cable has put one or two questions, you have informed us that the Presidency banks have

made no requests for loans during the last seven years, and you assume, and I agree with you, that this is because interest at Bank rate was demanded against loans on security by the Government?—That it would have been demanded?

209. Presumably. I would submit that the Presidency banks do not care to borrow to lend again on the best gilt-edged security without any margin to themselves?—I think that is a very fair point, if I may answer your question in that way. You have not forgotten that passage which I read from the Bank of Bengal's letter, where the Bank of Bengal said that they do not want any profit and merely wish to seek the convenience of the Indian money market (paragraph 15 (1) of Appendix I., page 4).

210. I had forgotten that at the moment, but still I can see that would not be business, and they are accustomed to lend as freely as they possibly can at bank rate almost to any extent against Government securities?—Yes.

211. If they asked a higher rate—I am speaking from positive experience as far as the Bank of Bengal is concerned—I think it would be very much remarked on; therefore they are practically limited to asking the bank rate on securities of that kind?—I dare say it is as you say, that if the Government had made a difference of 1 per cent. in the rate on which they lent to the Presidency banks, the Presidency banks would have been much keener on taking loans.

212. Do you not think, if it is decided to grant such loans under special conditions, that 1 per cent. below the bank rate might be granted in order to make the relief effective?—That sounds *prima facie* reasonable; but if we were discussing that in the India Office our first step would be to ascertain the opinion of the Government of India, and anything that I say is subject to what the Government of India would think on such a matter.

213. It is admitted that times of pressure for money constantly occur in India, and usually at the same period of the year, when exports are most active, and when it so happens that the Treasury balances are at their maximum. That is set forth, I think, on pages 40 and 52 of Appendix II.?—I do not know whether the pressure comes most when the export trade is most active, or just before the time of its greatest activity.

214. It has been suggested that at such times of pressure, when Government resources admit, loans on interest against security might be made to the Presidency banks from the Paper Currency Reserve?—That was suggested in about 1899 or 1900, I think it was, by the Bank of Bengal, and it was supported by the Bank of Madras. I ventured to make some observations on it in my memorandum.

215. I gather that you personally would favour this course with the qualification, if the strength of the banks is held to be sufficient to justify such loans?—Yes. I should like to repeat here, if I do not repeat it too often, that that does not come from the Secretary of State, but that it comes from me, and you must not regard it as authoritative. The obvious advantage, which, of course, you see, is that it is a much more stable and trustworthy fund from which loans can be given.

216. Might not any risk to Government be provided against by maintaining an effective margin, perhaps as much as 5 per cent. between the amount of the loans and the market value of the security?—Of course that guards you against loss, but it does not guard you against the risk of not getting back your money at the right moment, which is often just as important. To have your money tied up in securities which are sure to be worth their value three months hence, when you want your money to-morrow, is not always a satisfactory position.

217. On the question of the strength of the Presidency banks, I understand that the India Office lends freely when it suits them to exchange banks in London against security?—Yes.

218. Presumably, therefore, these banks in India, and all the more the Presidency banks, are strong enough to justify such loans against security?—I I have mentioned in paragraph 17 (3) of Appendix I. that Sir Guy Fleetwood Wilson had a discussion with the exchange banks as to whether they would like to borrow money from the Government of India. They said—this was the impression made on his mind—that they were not keen on it. The explanation is in a sense fairly simple—that, if they can borrow in London from the Secretary of State at London rates, which might be, say, 3½ per cent., they would not be much attracted by the idea of borrowing the same amount of money in India at Indian rates, or 6 per cent. I do not know if that is the only explanation, but it seems to me a very plausible one.

219. My question was meant to show that the standing and the strength of the Presidency banks in India at the present moment is such as to justify loans against security on special occasions?—Yes. Of course you have to bear in mind that it is a question, not of loans, but of additional loans. If you have deposited two millions with a particular bank, and it is a very strong bank, then the question of depositing a third million is not quite the same as if it were a question of depositing the first million.

220. I quite follow that. I would like to ask you a few questions now on the Treasury balances in India. We have before us the Government of India's resolution of January 19, 1876, as to the management and economising of the Treasury balances (page 35, Appendix II.); we also have Sir James Westland's memorandum of November 20, 1888, sent in the Government of India's letter to the Bombay Chamber of Commerce of January 12, 1889 (pp. 42–7 of Appendix II.). Are there any such later resolutions and reports to guide us as to the system and what is being done at the present time—I refer to the detailed working of the treasuries?—For a couple of years I think the Comptroller-General—probably Mr. Gillan was Comptroller-General at the time—issued a summary of the resource operations of the Government of India and the management of balances during the year, and some sort of information on that subject is given in the annual report of the Paper Currency Department. I do not think that you would have anything else in so general a form.

221. (*Mr. Gillan.*) That is only an annual report of course. There is a manual of the Comptroller-General's office which, as far as I know, contains the latest résumé of instructions on the points that Mr. Gladstone is asking you about. I do not know whether that is available here or not†?—I am not sure, but I will see.

222. (*Mr. Gladstone.*) What I should like, if possible, would be, not a mere résumé, but something to enable an expert like Sir James Begbie, for instance, to look into the actual daily working of the treasuries. I do not see how we are to form any independent opinion as to the balances in India unless we are made aware of the exact daily conditions, say, in one or two representative treasuries, large and small, and of the practice; but perhaps that is a question which ought to be asked of the Indian witnesses?—I think so.

223. I would like to ask whether you do not consider that the general conditions have greatly changed in India during the last 25 years?—They have enormously changed. For one thing you will notice that the proportion of private deposits to Government deposits in the Presidency banks has gone up very greatly. I would not say that makes all this doctrine of 1874 and 1876 obsolete, but at any rate it has taken away some of its applicability.

224. I think you referred to the balances which Sir James Westland named of 8 crores, and stated that the assumption was that nothing of that kind could be faced now with the increased revenues, and so on, and the responsibilities of the Government. With the enormous extensions of railways and telegraphs and wireless, could not greater economy be exercised by more direct central control of the treasuries and daily returns of receipt and expenditure by wire, much as traffic over a long length of railway is directed from one central point always by wire?—I should say that

* Office Manual of the Comptroller-General, published by the office of the Superintendent of Government Printing, Calcutta, 1900.

is a question whether the Comptroller-General from time to time does his work with the greatest amount of efficiency. Quite apart from the fact that a late Comptroller-General is here, I have always thought that that kind of work, what they call in India resource work, that is, the work of putting Government money where it is wanted, is extremely well done so far as I can judge from such limited information on the subject as reaches the India Office.

225. I think you are aware that, apart from those who have special knowledge of India, our highest financial authorities are inclined to doubt whether these large balances in India are necessary?—If you are speaking of such balances as were held on March 31, 1913, in India, which were exceptionally high, owing to a number of causes with which you are familiar, then there is no doubt those balances were unnecessary.

226. I quite follow that the conditions were exceptional with regard to those, but I refer more to the ordinary balances which I understand are 12 or 14 crores, or something of that kind?—I should say that on March 31 in a normal year the balances in India would be about 18 crores.

227. The total Treasury balances?—The total Treasury balances, including the amounts held on behalf of the treasuries in the Presidency banks, would be between 18 and 19 crores on March 31. I would like to say, if I may, that it is very difficult for an eminent English financier to give a valuable opinion as to the exact amount that ought to be held in Indian Government treasuries at any time.

228. I entirely agree with that, and I do not know that they would go so far as to give opinions; they would not without studying the conditions. I only meant that at first sight they find it difficult to understand how it can be necessary under modern conditions to keep these enormous balances in India. I am really referring to the average balances, and I am not dealing so much with what you end up with on March 31?—You will notice that in Statement C. in Appendix II. on page 76, the figures are given for four quarterly dates in certain years. One can give that information month by month or for a larger number of years if you wish.

229. I am satisfied with that information, but I should like to see what I consider those large balances justified by a closer examination into, as I said, the weekly and daily working of representative treasuries?—I think you must fall back on the Indian witnesses for that.

230. You mentioned, I think, that the disposal of the Council bills might possibly be done under better conditions by a bank than by the Government?—Did I say under better conditions? As well, I ought to have said.

231. Then as well, for a reason which you explained. Is not this important branch absolutely bound up with the question of the Treasury balances in India, the Paper Currency Reserve, and the gold standard—it all forms part of the same problem?—I would answer that question in the affirmative; but as regards our inferences from it, I am not sure that we should agree. I gather that your inference is that it must remain a piece of Government business as distinct from a bank business. My inference would be that if you do hand over to a very large extent the Government balances in India to a bank, that same bank in its English branch would have to have something to do with the selling of remittances, merely because, as you say, the two branches of business are so closely allied.

232. Do you consider that any unofficial institution could deal as effectively with these very large questions as the Government?—No. I thought I was rather careful to say, when I committed myself to the view that I rather liked, in some aspects, the idea of a great State bank, that it would have to be very much under Government control, or at any rate working in such close co-operation with the Government that it would amount to Government control; and as far as I can tell, unless that condition were satisfied, the scheme would be impossible.

233. Might I ask, as a last question, whether it is not your belief that the present system on the whole satisfies the interests of the public best, and are not those trading with India generally of this opinion?—I might almost say that modesty forbids me to answer that in the affirmative. I think I might say that the public ought to be well satisfied, but if you would allow me, I should like to give you the result, very briefly, of the inquiry that we made on the subject. Some time ago the Secretary of State asked the Government of India, among other things, whether they had received representations in India against the present system of selling Council bills, and so on, especially representations in favour of restricting them, which you know is the chief measure which has been suggested. The Government of India said, with regard to the restriction of Council bills, it has always been urged by Mr. Webb —whose name I expect is familar to you—that they should be limited to the amount required to meet your home charges, and he made certain representations, which they rehearse. So far as we can trace, no other representations on this subject have been made within the period mentioned by the Secretary of State—that was 10 years. They say in the passage which I think I have already read, that they think, though improvements may from time to time be made, the practice, in their opinion, is generally sound. So I think you are right in saying, and I am grateful to you for bringing it out, that in spite of the strong remarks that one has occasionally seen in the newspapers, the present system is regarded with general satisfaction. I think that if you put those kind of questions to the representatives of the Chambers of Commerce in India, who will doubtless come here, you will get a similar answer.

234. (*Mr. Keynes.*) You have given as one of the reasons for the high level to which the balances reach from time to time the difficulty of accurately budgeting in a country subject to such conditions as exist in India, and in paragraph 24 (1) of Appendix I. you point out that in March, when the Budget is prepared, it is particularly difficult to know accurately what revenue can be expected. Has it ever been considered whether that could be partially remedied by removing the end of the financial year, say, to September, when the season which would be covered by the year being budgetted for could be more easily forecasted?—There are some questions which are always being considered at intervals of 10 years or so in India, and the question of altering the financial year you will find was considered in 1864, by the Select Committee of 1873, by Lord Welby's Royal Commission of 1895, and so on. I think it has been considered, not with reference to a September-to-August year, but with reference to a calendar year. If it were a calendar year, I think, from the purely Budget point of view, it would be a better year, because you would start your Budget in January and you would know pretty well where you were until, say, June or July, by which time, if the monsoon were going to give trouble, it would begin to do so. So that you would have six or seven months of certainty, or comparative certainty, and then five or six months of uncertainty; whereas at present you budget from April, and you have only three months of comparative certainty and nine months of comparative uncertainty. Therefore, from the purely Budget point of view I think a change would be advantageous. But—and I have often discussed it with colleagues of mine with great experience of India—it would throw out the administrative work of all sorts of departments in the Government of India and in the provincial governments so seriously that I think it is a change that is not likely to be made, in spite of the Budget advantage that it might possess.

235. I can quite understand that the change would be very troublesome; but you are saying in effect that if the change were once made it would be an advantage to the Budget, and your argument against it is the difficulty of making the change?—No, I am not saying that; I oppose it on stronger ground. Let me put it in a more definite way. Supposing that one had a January-to-December year, which would seem to be the natural alternative to an April-to-March year, then the Budget work would have to be prepared, and a good deal of other work would have to be done in government offices probably in November and December before the Budget came on. Now, many

colleagues of mine with Indian experience say that it is most important that high officers of one sort and another should be able to tour about India, or tour about their provinces, in the months of November and December because they are the best months in the year for that open air and itinerant work. Of course here I speak subject to correction from those with Indian experience; but I think that is a serious obstacle.

236. In the case of the September-to-August year, what would your feeling be about that?—I had not thought over it, and I do not really like to say without thinking. Perhaps if there is another opportunity you might ask me later.

237. But you would agree that from the point of view of accurate budgetting March is almost the worst month you could take?—Yes, I think you are right. The worst month you could take, I suppose, would be May, but roughly what you say is correct, I think.

238. I do not know whether this is to the point at all, but in paragraph 30 (4) of Appendix I. you point out that the capital transactions in England are apt to occur immediately after the end of the financial year, and therefore the closing balances at the end of March give a misleading appearance because they omit to take account of the pending capital transactions?—That is so. Another thing they may do, which has caused much more misunderstanding, is that if one has raised a loan, say, a week before the end of March, then in a series of annual figures showing the balance on March 31 you see against that particular year a very high balance, and the reader does not realise that it is an accidentally high balance.

239. Therefore from the point of view of tidy account-keeping, March is an inconvenient time of the year from the point of view of the India Office?—From some points of view it is, and also you might say that it is really in the middle of a critical period of the year when changes may take place in very large amounts in one week.

240. The next point I wish to ask is in connection with a question raised by Sir Robert Chalmers about the connection between the Indian and London money markets. You rather suggested in your reply, I think, that the connection was not close, and I suppose everybody would agree that there was no mathematical connection and that the rate of money in India was determined by many other things in addition to the London bank rate?—Yes.

241. Would you not say that when there is considerable pressure in India the extent to which remittances are sent there depends upon the London bank rate?—I think they are affected to some extent by the London bank rate, but the point which I am not sure whether Sir Robert Chalmers had in mind, and I am not sure whether you have in mind, is this—they are rather two points. In the first place, pressure may come in India through causes which are not likely to be relieved by the sale of Council bills. One so often thinks that the sale of Council bills is the natural way of relieving stringency in the Indian money market. So far as the stringency is due to great demands for the steadily progressive export trade, I have no doubt that the common view is correct; but the stringency may be due to this kind of thing; a firm buys jute, for example, on borrowed money from the Bank of Bengal, or cotton on money borrowed from the Bank of Bombay, and is not able to pay back the loans it has taken from the bank until it has sold its finished article. Supposing that either the manufacturer is holding out for high prices, or the purchaser in Japan or the Argentine is rather slow in coming forward, the period over which such loans extend, that is to say, the period until the actual sale for export is made, may be prolonged to an unusual extent. That causes a certain amount of stringency, and so long as it goes on it is very difficult to see how it can be relieved by the sale of Council bills, because no export bills are created against the export until the export is actually arranged for. I hope I have not been too technical, but I think that is one reason against assuming that when there is a stringency in India it is likely to be relieved soon from London. Then there is another fact which perhaps you are not aware of. Of course you are aware that the exchange banks do, as far as I can tell, a certain amount of business in the way of importing capital for banking purposes; but they do not do very much, as I gather, of such business, and the Presidency banks are not allowed—they have been asking for many years to be allowed—to import capital to be used temporarily for banking purposes, the Secretary of State never having seen his way to grant that permission. No doubt you will be much interested in the papers on the subject that you will see. That restriction no doubt has a good deal to do with preventing banking money from being imported into India at the moment of stringency, and therefore it prevents this equalisation, or this approximation, that you might expect between the London and the Indian bank rates.

242. (*Chairman.*) What do you mean by saying that the Presidency banks are not allowed to import capital into India for banking purposes?—Perhaps I might put it in this way; I will not take you through the clauses, because that would make it rather long. The Presidency banks came into existence in India, they raise their capital in India, they buy stocks, and so on, in India, and they may raise further moneys in certain ways, all in India. From time to time they have said to the Government of India: "Supposing "that we could take a certain portion of our securities "and pledge them as security for loans, say from the "Bank of England, or from some great English "banking institution"—I will not go into the technicalities of it—"we should be able temporarily to "increase the capital that we are able to lend to our "customers in India." You will see from the papers* that are going to be given to the Commission that the Secretary of State has always, for quite a number of reasons, objected to that change, so the Presidency banks are, as it were, closed up in India, and have no access to any country outside, except Ceylon, which is inconsiderable.

243. What the Secretary of State has objected to is the removal of the securities held by the bank from India to London, and their being pledged in London; is that so?—He has objected to the Presidency banks borrowing in London from a London lender.

244. (*Sir Robert Chalmers.*) Is that only as regards the Bank of England? Is it not open to the Presidency banks to receive deposits in London?—No; in fact, I may say that the Presidency banks have never asked to be allowed to do that. That would really change their character very completely.

245. (*Mr. Gladstone.*) Would not the answer be that the Presidency banks must not compete in exchange operations, and they are prohibited from doing so?—That is rather a gloss on my meaning.

246. (*Sir James Begbie.*) They are not allowed to borrow in London independent of the exchange business?—I will tell you why I should not accept Mr. Gladstone's gloss on what I said, if I may. You will find from the papers* when they are submitted to you, that the Presidency banks have always said, and I am quite sure *bonâ fide*, that they do not wish to compete with the exchange banks in exchange business; they merely want to borrow in London in order to relieve the Indian money markets.

247. (*Mr. Keynes.*) To come back to the point from which we began, it is the case, is it not, that the exchange banks lend a great deal of money in India on loans or advances, and do not engage all their funds in foreign bills?—No doubt when they have money in India they do that. I hope you will ask the representatives of the exchange banks whether it is their habit to send out money to India in order to be employed in that way.

248. My point rather is this, that the effective rate for money in London determines how much it is worth while for the exchange banks to expend on the purchase of Council bills; those Council bills put them in funds in India, and I should not suppose that they would make up their minds until the last moment whether it would be most profitable to use those funds that they get in India in buying more foreign bills which could

* *See* Appendix XV., page 355.

be discounted in London, or in making direct advances; and I should be surprised, therefore, if the rate at which business in bills could be done were very different from the rate at which advances would be made on a similar sort of security. I would like to know if you are intending to deal with that in your answer?—My view about the way that the exchange banks do their business is, I think, rather different from yours. I think primarily the exchange bank regards it as its business to buy bills as cheap as it can, and then in due course to collect the money or to discount the bill at as favourable rates as it can. I should say that the exchange banks generally regard the loaning part of their business as very subsidiary. I believe it becomes more and more important, but I think even now it is still a subsidiary branch of their business.

249. Is it your opinion that the rate for bills in India might differ appreciably more than it does in England from the rate for advances on similar security and for similar periods of time?—I am inclined to think that it might, but it is so purely a technical question of the actual working of the particular set of banks that I think it would be well to ask the representatives of the banks.

250. Mr. Gladstone, I think, drew attention to the remarks that you made in paragraph 17 (3) of Appendix I., with regard to lending to exchange banks in India, and he pointed out that a good deal was already lent to them in London. I should like to know about how much that has been in recent years?—I have a statement here in case it is interesting to the Commission, but, if you will allow me, I will not read much of it because you cannot take in a great number of figures when they are merely read out. The important point is this: There are five exchange banks which borrow from the Secretary of State. I have had taken out for me the amount of the outstanding loans to each bank shown in the last weekly statement for each month in 1912–3; then we have added up the total and divided that by 12, which gives in a rough way the average amount of India Office money held by the exchange banks. Those averages for 1912–3 are: the Chartered Bank of India, Australia, and China, 450,000*l.*; the Eastern Bank, 70,000*l.*; the Hong Kong and Shanghai Banking Corporation, 180,000*l.*; the Mercantile Bank of India, 220,000*l.*; the National Bank of India, 470,000*l.* The total of those five is 1,390,000*l.* Of course, you can have the information in much more detail.

251. What was the highest total, apart from the average, in any week?—The highest of these figures that I have before me is 1,900,000*l.* at the end of December 1912, but in weeks which do not happen to be the last week of a month there may have been higher figures.

252. The average, you say, was about 1,400,000*l.*?—That is right.

253. So that they get very large sums?—Yes, very.

254. Large in proportion to their resources in London?—I would not say in proportion to their resources, as they have very great resources. Still, there are the sums, and whether one calls them large or small is a matter of judgment.

255. If these funds were lent to the exchange banks in terms of rupees instead of in terms of sterling would it be possible to get a higher rate of interest, do you expect?—I do not know. I should have thought, but I speak with great diffidence of an institution like the Hong Kong and Shanghai Banking Corporation, that if it did not borrow money from the India Office it would borrow money from someone else in London on as good terms, or nearly as good terms. You see, they are very strong banks, and in good credit.

256. You would not say that in regard to this particular kind of loan the India Office was in a predominant position?—I do not think so. Of course, you have Lord Faber here, who knows much more about banking than I do. The Eastern Bank, as you know, is rather a new one, but I should say that if one of these old-established exchange banks, which have connections, some of them, all over the British Empire and beyond, wanted to borrow half a million or a quarter of a million of money in London, and could not go to the India Office, they would probably have no difficulty in getting it somewhere else.

257. At substantially similar rates?—I should think so. Of course, I would not dogmatise, but that is my impression.

258. If this sum is lent them now in London against rupee paper, it would not be a very revolutionary thing for the Government to lend it them in India against similar security?—It would not be a revolutionary thing, but then you must regard it, please, from some different points of view. Just let me take a case to show where your argument, if I may call it an argument, that the two things are much the same, would rather break down: Supposing that the Secretary of State had been accumulating some money towards the end of March in order to pay his 5th April dividends, and he had lent it to these banks with the understanding that on the 3rd or 4th of April he will get it back from them and be able to use the money to pay his dividends, from the point of view of the Secretary of State it would be a very serious matter if that money, instead of being repayable to him at the Bank of England, at 4 p.m. on a certain day in April, were in India and repayable to the Comptroller-General.

259. I did not mean to controvert that; I was thinking of a different point?—I was not sure whether you had noticed that. It is a very important point. From the point of view from which you have raised it, that it would not be a revolutionary departure, I quite agree with you.

260. I meant only that if the Government of India had the money to lend in India, then to lend it in this particular way would be nothing very new?—There I quite agree with you.

261. In paragraph 15 of Appendix I. you quote a number of opinions that have been expressed by the Government of India from time to time; you will not perhaps endorse them, but I want to ask you how far those opinions related to lending money from what I might call the normal balances of the Government, and how far to lending money from amounts temporarily with them in excess of their normal requirements?—I quite agree with you that a sharp distinction ought to have been drawn, but whether the writers were scientific enough to draw such a sharp distinction in their own minds I do not know. I agree with you that there is a distinction in principle between the two kinds of loans, but there is this common to the objections to both—that, whether you are discussing a system of regularly lending a crore or two crores, or whether you are discussing a system of occasionally lending a large sum when you have very large sums, the argument that the Government may have to withdraw its money at unexpected times applies to some extent.

262. I was thinking partly of this argument—for the Government to lend would be a disturbance to the supply of money in India, but at present if the Government does not lend it means a disturbance?—Yes. Of course, the general argument which, as you very truly say, applies to normal times, would have much less applicability to a time like the present, when the amount locked up in the Government Treasuries is unusually large.

263. You would not wish, therefore, to endorse these opinions if they were taken to apply to abnormally high balances?—Certainly not.

264. When you were talking last time about the transfer of funds from India to London generally, you said that you were always willing to do it when there was a demand for Council bills, and when the Government of India had funds in hand, because it facilitates your operations in various ways that it should be possible for you to issue your loans at a convenient moment, and so forth?—Yes.

265. You did not mention among those advantages the general strengthening of your sterling position; that is to say, in addition to your cash balances in London it might be regarded as an aid to the paper currency reserve and the gold standard reserve; would you say that was the case?—You mean, I suppose, that if there were a sudden fall in exchange

the larger our balances at the moment the better would be our position for meeting such a fall; is that it?

266. Yes?—It is perfectly true that, the larger our sterling reserve is, the better is our position for meeting a fall in exchange, but if you are asking me about the actual practice, I should not think that the Secretary of State would ever increase his resources with that object in his mind—I mean he would be guided actually by many other considerations than that. Although, as you say, if incidentally the result that you mention occurred it would be an advantage, still it would only be incidentally.

267. In the crisis of 1907–8 he started with medium balances and he used them to a considerable extent, so that the London balances sank at one time to a very low point; that was the case, was it not?—Yes.

268. In the succeeding year the balances went up to an unusually high level?—Yes.

269. I should like to know if it was at all in the minds of those who were directing affairs that this raising of the balances would be putting them in a stronger position if there was an early recurrence of the difficulties that they had in 1907–8?—I think I can say very definitely that that was not in the minds of the people concerned. I would like to add this, so as to make the answer quite complete: After the recovery in exchange subsequent to the crisis we sold our Council bills rather freely for the purpose of building up again in London our gold standard reserve, which had been depleted, and that building-up was naturally effected very largely by remittances from India. It is quite possible that during the interval between when we got the money home and when we invested it in securities for the gold standard reserve the balances were rather high.

270. Apart from the investment of the gold standard reserve, it was the fact that the accumulation of balances in the years 1909 to 1912 did have the effect of making your sterling position very much stronger?—Now you are speaking of the whole period. It did make the sterling position stronger, but I can say, because that question has been sometimes raised, there has been no policy of building up an exceptionally strong sterling position with that object in view.

271. That is what I wanted to know?—If you have read, as no doubt you have, the India Office Memorandum on India Office balances which was given to Parliament, you will recollect that what I say now is practically the whole theme of that memorandum.*

272. Now as to the general principle of the Reserve Treasury system. So far as I know, there is only one other country that has anything similar, namely, the United States, and it is always made a criticism there that it upsets the money market by taking funds off it, sometimes at a moment of inconvenience; would you say that the Indian system is open to a general charge of that kind?—Yes, with considerable mitigations. I do not think the Indian system does it on so large a scale, or anything like so large a scale. I happened to be looking at some American statistics; I do not know how the United States authorities get the figures, but still they publish them officially. They show what proportion of the total money in the whole of the United States is held in Government Treasuries, in banks, and so on. I notice that they give these figures for June 30th of each year, and in one year they held 16·31 per cent. of the total money of the United States.†

273. Does that include the amount held against the gold certificates?—It includes the gold certificates, but not the gold that they hold against them.

274. It is the Treasury balances, is it?—They call it "Coin and other money in Treasury as assets." So 16 per cent. of all the money in the United States is shown in this return in that particular year as having been locked up in Government Treasuries. The percentages vary; that is the maximum, and the lowest that they give is rather under 9 per cent.

275. The important figure is the fluctuation?—Yes; the lowest percentage is 8·6, and the highest, as I say, 16·31; that is, the amount is twice as great at one period as at another. I merely mention that as showing that the Indian system is not as bad as that, but no doubt within limits it is open to the same criticism that is notoriously brought against the American.

276. I suppose that in March of this year something like 8 or 9 per cent. of all the money in India must have been in the Government Treasuries, and a few months previously perhaps 3 or 4 per cent.?—I will not try to work out the figures in my head.

277. There was a very large fluctuation?—Yes, there was.

278. Would you say that the stringency in Bombay and elsewhere this spring may have been partially due to the working of the Reserve Treasury system in India?—I suppose that it was, but I would not say that, if I may so express it, with any great enthusiasm, because the stringency of this year, as you see from the chart I have produced, was not appreciably greater than the stringency that has existed in many years when there has not been so large an accumulation of money in the Government Treasuries.

279. I did not mean that it was the only possible cause of the stringency, but whether in this particular instance it may not have been the cause, while there may have been other causes in other years?—I suppose it is clear that if less money had been in the Government Treasuries it is probable that there would have been rather less stringency, except that there is always the very difficult question, how far is the money that is locked up in Government Treasuries what is called money market money, or how far is the locking of it up a cause of the demand for advances from money market resources. There are so many different kinds of money—you are familiar, I am sure, with that point.

280. Would the first three months of 1913 have been a suitable occasion for lending money from the Treasury balances in India if any sort of different machinery from what there actually was had been in existence for doing it?—I could not conceive a more suitable period. Supposing the policy is adopted, the most suitable time is the one at which there is most money available, and I do not think there has ever been quite so much money available in the Government Treasuries in India as in the period that you mention.

281. I should like to go back to almost my first question and bring this in connection with that. One of the reasons why there was so much money in the Government Treasuries was because there was rather a low amount of Council bills sold; is not that so?—That accounted for it to some extent. I do not think it was a very serious cause. In one of Mr. Newmarch's papers you will see a comparison of the Council bills sold in that year and in a previous year.* I do not think the sales were exceptionally low.

282. Are those figures available for February and March?—In February 1913, there were sold telegraphic transfers for 357 lakhs and bills for 63 lakhs. That adds up to 420 lakhs. That is less than in the previous year when the two together added up to 487 lakhs. Similarly in the months preceding the sales had been lower, but they had not been noticeably low. Shall I give you the figures for January?

283. I would like to have them for January?—In January 1913, the sales were: bills, 255 lakhs, and transfers, 318 lakhs, that is 573 in all; whereas in January 1912, the bills were for 85 lakhs and the transfers for 645 lakhs.

284. That is to say in 1912 they totalled up to 730 lakhs, and in 1913 to 573?—Yes.

285. As you say, the difference is not very great, and the figure 573 is not a very large figure. Have you got the figures for March?—For March this year the bills were for 55 lakhs and the transfers for 177 lakhs, and for March of the preceding year 76 and 290 lakhs respectively.

286. So in the previous year there were 366 as against 232 this year?—Yes.

287. So they were about 50 per cent. higher in the preceding year?—The only point I am making is that

* Cd. 6619

† Report of the Comptroller of the Currency, Washington, 1912, p. 51.

* Page 238, Appendix VII.

they were not noticeably low. If you hold that the exceptional amounts in Government Treasuries in India were due to an exceptionally small sale of Council bills there I could not follow you.

288. As compared with the preceding year there was a difference of nearly 2,000,000*l.* in the first quarter of the year?—Yes.

289. Would you hold that the small demand for Council bills was due to the high effective rate for money in London?—I think, although I could not prove it, that the high rate in London does have some effect in diminishing the demand for Council bills. I think probably the exchange banks would operate generally with less freedom when they have to discount their sterling bills at rather onerous rates in London; but I do not think—and I am merely giving you my impression—that that is one of the most important of the causes. I think that what you may call general trade causes in India are much more important. In support of that I might mention, as shown in this chart, which I daresay you will be looking at later, at the end of 1912 and early in 1913 there was a 5 per cent. bank rate in London, and in the previous year for the same sort of period a 4 per cent. bank rate. The difference of 1 per cent. would not account for any very great consequential differences.

290. That is the bank rate, and the bank rate differs in its effectiveness?—Yes.

291. That is the first point; and also that is the three months' bank rate in London, and it is not the three months' bank rate in India that you are talking of?—That is so. What I was answering at the moment rather was this—whether this small sale, this reduced sale of Council bills, was to be very largely attributed to a high Bank of England rate or rather, not to a high Bank of England rate—I do not wish to put it in that way—but to a high general money market rate in London. I should reply that I cannot say that the money market rate in London was a very important factor.

292. You think it was a factor, but not a very important one?—Yes.

293. (*Mr. Gillan.*) I want to ask you first about the amount of our balances. The attacks that have been made on the Government from this point of view have chiefly been confined, have they not, to the home balances, that is, the balances held in the India Office?—Yes.

294. But the real point of importance is the aggregate balances?—Yes; that is a point which I may say the India Office has lost no opportunity of mentioning.

295. You say that the excess which has taken place in the aggregate balances has been due chiefly to two causes, first, to excess of actuals over estimates in the revenue account, and, secondly, to short spending on railways?—Yes.

296. Now about this short spending on capital account; it has been due chiefly, has it not, to non-compliance with home indents, or rather it has taken place in the English part of the expenditure?—It has varied a good deal. It does not entirely answer to what you say. Would you mind looking at statement A, page 70, where you will see the figures for 1910–1. In that particular year you will see it was mostly Indian; I do not know the explanation, but as you say, in other years it has very largely taken place in this country. In 1909–10, for example, the under-spending was mainly in this country, and also in 1911–2.

297. I do not want to go unnecessarily into technical points, but there was one difficulty, was there not, about the amount of indents that the audit officer was allowed to certify?—Yes. What we have done, as of course you know, is to allow indents to be certified in advance up to a very considerable sum—I think it is now about four millions.

298. I merely want to make it plain that that particular point has been considered and dealt with?—It has.

299. In the year 1912–3 I think as a matter of fact there was not a lapse, or very little lapse?—Yes. That is partly due to the fact that an extra grant was made in the middle of the year. If you are bringing out that the Secretary of State and the Government of India are doing from time to time what they can to prevent these lapses, then I am grateful to you for bringing that out, and, of course, my answer is in the affirmative—that they are doing what they can in that respect.

300. Another point in connection with the same capital expenditure: At present there really is only one year's programme for the railways?—Yes.

301. There used to be a three years' programme, did there not?—There were great ideas of a three years' programme, but I do not think they were ever more than ideas, but they had sometimes a delusive appearance of reality. Nowadays I think that very properly, since the Secretary of State cannot pledge himself for three years ahead, he does not even appear to do so. I think that is the extent of the change.

302. The point I wished to get at was that that does create a practical difficulty, does it not, considering that the railway programme is made up to December, and that they have to raise the expenditure on that programme in April?—Yes, and the difficulty is a great one. Not only, as you say, have various attempts been made to meet it, but I have no doubt that we shall go on making more attempts and getting nearer to a satisfactory system. That is what one may call one of the recurring questions of Indian administration.

303. Now about the revenue account and the estimates that have been made. I think you said that the excess in the opium revenue was not a matter of estimate, that is to say, the excess was definitely put aside as a matter of policy?—That is so. The excess, when it had occurred, was put aside as a matter of policy, and the disposal of it is shown very largely in that despatch of Lord Crewe's dated 23rd December 1910, that is given in Appendix II. (pp. 65–6).

304. The other head under which the excess chiefly occurred was what you call, I think, commercial?—That is so. If you look at Statement E in Appendix II. page 81, you will get the particulars.

305. As a matter of fact, in the railways the revenue has changed, taking the last five years, by millions a year, one way and the other?—Yes, it has. It is extraordinarily difficult to estimate what the railways are going to earn.

306. It has sometimes dropped by millions, and it has sometimes risen by millions, as, for instance, in 1907–8 and 1908–9?—Yes, and when it rises it rises very high, and when it falls it falls with very serious effect. In 1908–9 the railways yielded between three million and four million pounds less than they were expected to yield.

307. That is a point I was coming to. In the last three or four years there have been huge surpluses, excess of actuals over estimates?—Yes.

308. But in 1908–9 there was a deficit of actuals as compared with estimates of three and three-quarter millions, was there not?—I have not the actual figure before me, but I have no doubt you have got it right; it was about that.

309. What I want to bring out is that the estimates are not always necessarily wrong in one direction?—Of course not.

310. Which shows, as Mr. Keynes has suggested in reference to the budget year, the extreme difficulty of budgeting at the present time?—Yes.

311. The fact is at present that the Finance Minister has to make a declaration before seeing his hand?—That is so.

312. And we at present cannot make a forecast of the coming year so much as an estimate of what is considered to be the normal?—It comes very largely to that.

313. That is what is always said in the financial statement?—Yes.

314. So that unless the year happens to be exactly a normal year your estimate is bound to be defeated—either to be in excess or in deficit?—That is so.

315. There is another point in connection with the same matter. The revenue estimates are a means to an end, are they not, in this way, that you use them to determine the scale of expenditure that is permissible?—Yes.

316. That is what one is aiming at in making the Budget?—Yes, and when determining the amount of the loans; that is one of the things determined by the estimates.

317. Considering the fluctuations in the revenue, it is well, is it not, for the Government of India to be extremely cautious?—Yes, I think there are many administrative devices, which sometimes seem curious to anyone who is not familiar with these Indian difficulties, that are used in India, and are very admirably adapted for the purpose.

318. Will you say that in making the Indian Budget one has got to consider, not so much what we are likely to get, as what we can count on getting, and make sure of getting?—No, I do not think that you budget, as a rule, in such a pessimistic way as to reckon only on what you are quite sure of getting. I would rather say that you put down as your probable receipts, as you very well put it just now, what the receipts will be if the seasons and general conditions are normal; and that, of course, is a guess, and sometimes a hazardous guess.

319. In any case, with reference to a question that I think Sir Robert Chalmers put, the distribution of what we call the agreed surplus, that is, the surplus that we find we have at the end of the year, requires exactly the same sanction as proposals for the distribution of a surplus which we anticipate?—Yes. Formerly that was not so, but I think it is a great improvement that it is now as you say.

320. That is now the rule?—Yes.

321. One more point about balances. What I want to put to you is whether it does not really work as a sort of equalisation of the conditions of the finances of bad and good years, that is to say, if you have your revenue constantly varying it is impossible every few years to vary your taxation?—Quite so; I think you put it, if I may say so, extremely well, and I would, to bring out the full meaning of it, extend it a little. What one finds is that when one has a bad year then one has to borrow, to issue India bills, and so on; then after an interval a good year, or a series of good years, and then you pay off in the good times the debt that you incurred in order to meet the troubles of the bad times. Really you must expect this seesaw of good and bad years, of deficits and big surpluses, and except from the point of view of pedants and unpractical critics, I do not think there is much harm in these fluctuations.

322. You think it is permissible to keep something in hand in the good years?—As a rule, when you have a good year it has followed on a bad year, and you do not really keep it in hand; you use it in order to pay off some of the debts that your last bad season imposed upon you.

323. Practically that has been the effect of the last few surpluses, that you have paid off; you have got yourselves square and you have something practically, you might say, in hand for trouble when it comes?—Yes.

324. And you are in a stronger position because you have paid off all your floating loans?—Yes.

325. At the same time you have maintained, not an excessive, but a very steady railway programme for the last four or five years?—Yes. But for those surpluses, as Sir Ernest Cable was saying, it would have been an exceedingly difficult thing to maintain this railway programme, and to cut it down would have been very harmful to India.

326. About this change in the Budget date; is there any objection from the home point of view, that is to say, does it interfere seriously with other arrangements at home?—What sort of change were you thinking of?

327. Say to September or October?—You only have to think of Parliament. Supposing that Parliament is going to have an Indian Budget debate in July, you cannot then say what is going to be in the Budget that is to be introduced next September, so that you would have to recapitulate the Budget that was introduced last September. The House of Commons is very patient with regard to Indian affairs, but to listen to a long speech on a Budget which is nine months old, I think would overtax the patience even of the House of Commons. As regards the India Office, of course, it does not matter; we can adapt ourselves.

328. (*Chairman.*) Perhaps the House of Commons would like to have the Indian Budget earlier in the year?—I was assuming that you would probably not have the Indian Budget earlier than, let us say, May, what with pressing home business, and so on; and even if in May you were discussing last September's Budget, you would feel that it was rather a wearisome business.

329. (*Mr. Gillan.*) But you would agree that if a change were possible it would be desirable?—Yes.

330. That the present date is a very unsatisfactory one from the point of view both of India and of England?—Yes. If a change could be made without disturbing the administrative arrangements for touring, and so on, I see great advantages in it.

331. Now, about council bills: The only thing I want to ask is that it was not quite clear to me from the evidence you gave us at the last meeting, whether you consider that the amount of council bills is really determined by the requirements of the Secretary of State or not, that is to say, how far you bring in the argument that they are required in the interests of trade?—Do you mean that the amount is actually fixed with reference to the demands of trade?

332. Yes?—I know I was a little hesitating in answering one of the questions. I think I put it this way: That supposing in a certain year we begin with an enormous number of council bills to be sold in order to work up to our estimates, we should sell rather freely in the opening months of the year in order to make some progress with regard to carrying out our programme; but that when the year got on probably that sort of consideration would almost fade into insignificance as compared with the demands of trade. It is the demand of trade that is throughout the greater part of the year the governing consideration.

333. You do not mean that you actually bring home money that is not going to be required at home?—No.

334. But it may be in anticipation of requirements?—It is in anticipation. I am very glad that you have put that question, because, as I think I said in reply to the Chairman or to some other member of the Commission, the only purpose of bringing home money from India to the India Office is to spend it in the interests of India. The idea of bringing home money in order to have the pleasure of having a large fortune on show here I need scarcely say is quite out of harmony with India Office ways. Whenever we end up the year with a bigger balance than there is any need for at the moment we are usually sorry that we have not had the opportunity of spending the money, say, by paying off debt, or by avoiding the issue of new debt.

335. (*Chairman.*) Do you bring home money in excess of your actual and of your anticipated requirements on the ground that it is a convenience to trade that that money should be brought home, or do you limit your total purchases to what you either actually require, or think it wise to provide yourself with in anticipation of foreseen requirements?—I think I can answer that best in this way: We know that the requirements for expenditure on India's behalf in England are practically illimitable; we know, for example, that in every year we ought, if we could, to spend more money on a variety of purposes than we actually can spend owing to the restrictions which the state of the money market, and so on, place upon us. Therefore we are never in a position to ask: If I bring home so much more money shall I know what to do with it? There are always objects in England for which money is required on behalf of India, and, indeed, urgently required.

336. (*Sir Robert Chalmers.*) For capital purposes?—Capital purposes are those for which there are the most unsatisfied demands.

337. (*Sir Ernest Cable.*) And for paying off debts?—For paying off debts, buying capital stores, and so on.

338. (*Sir Robert Chalmers.*) You bring home money for the double purposes of revenue and capital accounts?—That is so.

339. (*Chairman.*) Am I right in understanding from that answer that you do not sell in excess of your requirements, actual or anticipated?—If by "anticipated" you mean definitely anticipated and set forth in any schedule, then I do not think your question puts the fact quite as it is. Supposing we were selling very largely now and you suddenly ask: What are the specific requirements that the proceeds of those sales are intended to meet? I could not give you a specific definite schedule of the requirements which those proceeds are intended to meet. I should say they are partly the Budget disbursements of this present year, and then I should be a little indefinite in form but not really in substance. I should say, if at the end of the year we have some millions more than the closing balance for which we have budgeted, that only means that we shall be able to have either a bigger railway programme than otherwise, or that with the same sort of railway programme we would have to make smaller issues of debt, and so on.

340. May I put it differently? You would never bring home more than in your opinion you could usefully use at home?—Quite so.

341. If trade required more, you would not consider it your business to provide it unless you saw your way to use it usefully at home?—Quite so. Of course, the circumstances in which we had money and could not usefully use it are very unlikely to arise, but if they did arise we should not be so at the mercy of trade as to sacrifice other interests merely to please the trader. That, I fancy, is the gist of your question.

342. (*Mr. Gillan.*) I am very anxious to get this quite clear, because, as you know, the charge that is always made against the Government generally is one of manipulation or management, whether it is of the currency or of the drawings on India or anything else?—Yes.

343. With regard to this council bill question, one point that has been made is that the Government draws in excess of its own requirements, and that it was explained that this was done for the benefit of trade, and objection was taken to that, that the money of India, as it was put, was being used for trade purposes?—Yes.

344. I want to know if we cannot get the Government case established merely on the ground of Government requirements; that is what I am anxious to find out from you. For instance, in paragraph 30 of Appendix I. you give, I think, four grounds for the free sale of council bills?—Five, I think, actually.

345. The first three of those relate to trade matters, and the fourth is the Government point of view?—That is so.

346. Would it not be clearer if this fourth ground, which you say is much the most important, were put forward definitely as the object of the policy of the Government, and the others as incidental advantages?—I quite agree with you. Let me be perfectly candid in this matter. You know that the whole Indian financial system is a very great and complicated and difficult system, and very often on extremely short notice one is asked to give Parliament a sort of justification of it in three lines—a very brief, lucid, correct summary. I think occasionally it has happened, and I do not think one need be ashamed of it, that when giving a summary of that sort one has not always put every fact in its right perspective; I think occasionally one has overstated the importance of meeting trade, to use a phrase which is now familiar to you, and has rather left in the background all these more important considerations of meeting the Government requirements and of doing the best for India as a political community. Sometimes in an official publication the thing has been put in what is not ideally the right perspective. In such a matter the Secretary of State relies on officials. They have done their best, but, under great pressure of time, have not always expressed the facts with the most complete and scientific precision that can be reached after long study and labour. I think there have been some slight defects in the method of presentation; that is what it comes to.

347. Then in paragraph 38 of Appendix I. you say "This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements. This assumption is incorrect." You would not modify that statement?—That refers to a slightly different matter. I think that we are probably at one, but I am not sure. What I meant to say there was that the Secretary of State does not want to keep high balances; he merely wants to have enough money to meet his requirements.

348. You are referring to the policy there?—Yes.

349. About loans in India. Mr. Gladstone brought out that the balance that we aim at at the end of March is about 12,000,000*l.*, 18 crores?—Yes.

350. That balance is fixed at that amount, is it not, to allow of the withdrawals that we know will take place within the first six months of the financial year?—Yes.

351. That is to say, we are working down to a minimum balance which is reached about November or December?—Yes. That is very important, and I ought to have mentioned it in replying to Mr. Gladstone, but I forgot.

352. That is to say, we hold a certain balance on March 31st because we know from experience that there will be withdrawals of a certain amount which will work it down to what is considered an absolute working minimum about November or December?—Yes. Some of Sir James Westland's papers bring that out rather fully, as you know.

353. Suppose we take that absolute minimum working balance of, we will say, 12 crores, from that point the balance begins to go up again, does it not?—Yes.

354. In January, February and March?—Yes.

355. There is then an excess over and above the working balance?—Yes.

356. Is there any objection to lending that temporary excess out in India?—No, I see no objection to lending anything that can be safely lent, provided—and this is very important, I think—that this is borne in mind: If you lend in some years you rather create an expectation that you will be lending in all years, and it is a very serious thing to create an expectation of that kind which you may have to disappoint. That is perhaps a platitude, but it is really a very important platitude to bear in mind. Then there is a further point which, of course, you have not overlooked, that in December you cannot lend much. If you have got in the habit of lending, people might expect to borrow your money in December, when you have not got it, rather than in March when you have got it.

357. I do not follow that; why should they not take it in January, February and March when there is a big demand?—But there is a big demand in December.

358. They cannot get it then, we will say, but suppose they can get it a later on?—I am merely putting this consideration, that if you get into the way of lending in January, February and March, when you have money, it is a little difficult to give a completely satisfactory answer to someone in December who wants to borrow; I mean, that if you say you have not the money, the answer is, "Well, you ought to have." I am merely putting it as a more or less psychological difficulty that may be of some importance, but I do not wish to put anything hostile, as I think I made clear.

359. Do you think this possibility of money getting upon the market would apply if the amount lent out were comparatively small?—No; of course the smaller the amount the less is the particular danger.

360. (*Sir Robert Chalmers.*) Would you stick to the small amount?—No. One of the reasons why I was so anxious not to say anything very definite as regards my own opinion is that everyone of these questions that Mr. Gillan is putting, and what you have just put, are very important questions requiring judgment. They cannot be answered in brief sentences, and the

whole decision is a very difficult one to arrive at. I quite see the force of your question naturally.

361. (*Mr. Gillan.*) The only other point I wish to put to you is about loans from the Paper Currency Reserve. I take it that the chief ground on which you make the proposal is that at present we have money to spare in the Paper Currency Reserve?—Not that at the present you have money to spare, because that equally applies to the Government Treasuries, but that you are more likely to have a suitable sum there than you are in the Treasuries. That is the one and only justification.

362. But if there is a spare amount in the paper currency, would the better course not be to put it into a permanent investment, as has been done with spare money before?—That is what Sir Clinton Dawkins said when he discussed it in, I think, 1900. It seems to me that if you have some spare money it does not make very much difference to the taxpayer whether you lend it say for half a year at 7 per cent. or something like that, or whether you buy a security which gives you 3½ per cent. throughout the whole year. If you could really meet a genuine reasonable demand on the part of the public by lending it at 7 per cent. for half the year, or something of that kind, and could assist Indian trade, the balance of the argument is in favour of that, I should say.

363. (*Mr. Gladstone.*) With reference to a change of the budget year, I was wondering if a change to September or October would suit you as well with regard to the issue of sterling loans. Would you not come across the autumn and winter money market, which over here is usually less favourable than the summer money market, which you now make use of for the loan requirements of the present budget year?—We certainly could not depend on an autumn money market in that way; but I think it is quite possible that the Government of India and the Secretary of State between them, before the budget came out in September, would exchange their views as to what would be the probable size of the railway programme and the probable amount of loans. The Secretary of State would have to issue his loans before the budget. You see he is not like a Minister who has to go to Parliament or to an authoritative body in order to get permission to issue each particular loan.

364. (*Sir James Begbie.*) In reply to the Chairman on the subject of the Government deposits with the Presidency banks, you mentioned that they began in 1862?—As far as I could ascertain that was the beginning.

365. At that time the Government were not only depositors, but also shareholders?—Yes.

366. You mentioned to-day also that deposits were given to the banks by way of compensation for giving up their note issues?—Perhaps I should be more careful if I said that the banks always claimed that that is the compensation, and I think generally, without committing myself, it has been thought that there was some reasonableness in the claim.

367. But you would not admit, as an absolute fact, that it was a case of compensation?—I do not think, if I may say so, that there is very much between us on the point. Supposing that at any time one of the Presidency banks said that it had a definite claim to so and so, because otherwise it would not be compensated for the confiscation of its rights, I should not like to agree with that; but in a friendly and general way I think most people would agree that there was something to be said for giving the banks something when the note issue was taken away from them.

368. The reason I asked the question is that it is constantly being said that Government leave considerable sums for the benefit of trade with the Presidency banks, and it is a question, to my mind, whether the Government are altogether entitled to say that. If they give the deposits by way of compensation for giving up the note issue, the assistance that the deposits give to trade is a consequence of the compensation, not the cause?—May I ask you, is there very much in that point? I do not mean is there much substance in it, but is there not a slightly unreal controversy as to whether the Government claim a little too much merit for themselves or not?

369. I do not wish to press the point, but I would like to have it cleared up, that is all?—I should say, and I think this is very much in accordance with your view, that it has generally been recognised that the claim to compensation, though in no way a legal claim, appeared a claim that it was reasonable to recognise.

370. In paragraph 9 of Appendix I. you say, "On "the flotation of a loan, and in special cases, the "amounts are increased." I do not quite know what you mean to impress upon us there. In the case of floating a loan, do the Government increase the balances with the banks in advance of the issue of the loan?—No.

371. Then how?—The information that I gave was taken, I may almost say plagiarised, from that telegram from the Government of India, from which I read you some extracts before (*see* page 66, Appendix II.). What I meant to convey was that when a loan is issued and the money paid into the Government account at the Presidency banks, I believe that it is the practice of the Government not to draw out that extra money with too great haste so as to take the money off the markets too rapidly.

372. You are aware, of course, that the Government have claimed the right to do it, and have actually done it in previous years?—Yes, and, as I say, you get no protection in your agreements against it. I believe—of course I may be misinformed—that in a general way the Government, in a spirit of comity, does take this money from the banks, from the proceeds of the loans, somewhat gradually.

373. That has been latterly the case, but it is not a thing that we can depend upon; the banks cannot depend upon the money being left with them at any time, can they?—No.

374. Then you go on to say that "At times of "great stringency in the money market the Govern- "ment of India grant loans at interest to the Presi- "dency banks." I do not know whether you know they also refuse to grant loans?—Have they done so recently?

375. Not recently—that is, not within the last six or seven years, so far as I know?—The part of the history with which I am familiar is that there is a despatch of the Secretary of State of 4th May 1899, in which he laid down that rule, or made that suggestion that the rate should be the bank rate (*see* Appendix II., page 64, paragraph 10); and from that time I think it has been the practice to grant the loans when applied for. There may have been exceptions, but I do not know of them.

376. There is no settled policy in the matter, so far as I know?—If at any time the Government had money and there was stringency in the money market, if you were willing to pay the bank rates, I think you would have no difficulty in getting a loan.

377. I think that is not the case. We have had cases where we have been refused loans without any reason assigned; at another time we have been told that the Government declined to lend in the absence of a critical position?—Of course, there is some room for diversity in the practice of individual Governors-General or Comptrollers-General. What I have endeavoured to do is to give you what I understand to be the declared policy of the Government, and I assume that it is usually carried out with discretion.

378. You say that of late years there have been no requests for loans from the banks, and you assume that that has been due to the rate of interest demanded. That has not always been the case. As you say in the same paragraph (paragraph 10 of Appendix I.), the banks have taken loans; so it is not always the case that the banks decline to take loans because of the rate?—I think the correspondent of the Secretary of State, who said the bank rate was the chief cause of the loans not being demanded, possibly overstated the matter; and I was rather careful, I am afraid, as I explained with some prolixity, to say that I did not pin myself to his view.

379. Do you know anything of the conditions that have been laid down in previous years on which loans shall be granted by the Government?—When you say previous years, what period do you refer to?

380. At the time the loans were being taken; I am taking now between 1898 and 1906?—I think that the period was as a rule prescribed, and that the rate was variable from time to time. If the bank altered its own rate, then it altered the rate of interest paid to the Government. I think those are the only conditions, and that the correspondence between the banks and the Government of India was extremely brief.

381. I would like to mention that some very onerous conditions are attached to these loans. For instance, I find that the Comptroller-General has intimated that the Government should help the market only when trade is seriously inconvenienced by a high bank rate. That was one of the conditions laid down in 1899. Then we have also been told that the minimum bank rate at which the question of loans would be considered was to be 7 per cent.; that is to say, the Government would not give us loans when the bank rate was below 7 per cent.?—I think that even if that does not sound reasonable there is a certain reasonableness in it. The principle followed has been—and I do not think the banks themselves have much dissented from it—that these loans should be somewhat in the nature of emergency loans, and the 7 per cent. rate was no doubt taken as a sort of index of an emergency having arisen.

382. Of course, the banks are in this position, that they have to assent to the terms laid down by the lender, for the Government are in the position of the lender?—I could not quite agree to that statement, and I will tell you why. I have read through a vast amount of correspondence between the Presidency banks and the Government of India about loans and similar subjects, and I have always been struck by the extreme reasonableness with which the Presidency banks have put forward their views; I mean they have never put forward the extreme view that every penny that the Government has ought to be lent with them and placed at the disposal of trade. They have always gone about it in, I may say, a much more sensible manner, and have said, when there is a pressure in the money market of Calcutta or Bombay, it is really hard that the Government, if it has funds, should not lend them to us either with or without security. It is because they have approached it, and I think very properly approached it, in that spirit, that I do not think the adoption of a certain figure as indicating pressure is unreasonable.

383. I do not suggest that. My desire was to bring out the conditions on which the Government usually give these loans. Another condition was that the banks, when they took loans, were not expected to make any profit out of them—that has already been mentioned: that is to say, the banks were expected to lend at the same rate as that at which they were borrowing?—That remark originated with a Presidency bank, as I pointed out.

384. That has been brought out already. The Comptroller-General at one time also intimated that if a Presidency bank declined to pass on money lent by Government, at the same rate as that paid to Government, he would suggest to Government that loans should be made direct, and he thought banks would like that as little as Government. So that the conditions under which the banks do obtain loans occasionally are very stringent?—Yes.

385. When you state in paragraph 10 of Appendix I. that at times of great stringency the Government lend to the banks, that conveys an impression, to my mind, certainly, which I do not think is altogether justified by circumstances?—Do you mean that the Government are more severe in their conditions than I have indicated?

386. That is the impression given to my mind?—I can only say that I base all that I say on the subject on the official correspondence that we have here which expresses the intention of the Secretary of State and the Government of India. I noticed with some interest that remark which you quoted from the Comptroller-General. It is quite possible—I do not think there is anything improper in my saying it—that that particular remark may have been somewhat indiscreet; I mean Comptrollers-General are not perfect 24 hours a day and 365 days in the year.

387. I think you stated to the Chairman that regarding loans from the Treasury there was a question whether the market should rely on Government balances?—Yes.

388. The market in India rather looks at it, sometimes at any rate, in a different way; they think it is a question whether the Government are justified in withdrawing money to a very large extent from the market's resources?—As I said, I think to Mr. Keynes, it is very hard to say how far these Government balances come from market resources. If they represent land revenue paid in by agriculturists that is not money market money, and it is not a depletion of market resources.

389. I think that a great deal of that money is money market money for this reason, that in the cotton districts, for example, the soukars, the native bankers, lend money to agriculturists for the purpose of paying their revenue—they advance money against the growing crops—so that the soukars give to the agriculturist and get money from the banks, and therefore, it is really money market money that is being raised?—On that subject I defer to you. You know so much more about it than I can hope to.

390. You are aware that the bank rate of India is the rate fixed from time to time by the Presidency banks, and that the great bulk of Indian trade is, as I suppose you know, conducted at rates which are dependent upon or based on bank rates?—I should assume that, although as a matter of fact the divergence between, say, the rate prevailing in a district and the quoted bank rate might be very great indeed.

391. Not very great nowadays since railways have developed so much?—There again I would not profess to know anything like so much as you know on that subject.

392. At any rate what I want to bring out is that it is a matter of very great importance to trade that the bank rate should not reach a high level?—That is so.

393. That of course you acknowledge in paragraph 14 of Appendix I., where you say the advantages are obvious?—Is it worth mentioning here that some authorities, including bankers, have been very eloquent in the correspondence I have read as to the disadvantages of too low a bank rate, because they say it tempts people to hold up their produce unduly by making it cheap to hold out for high prices; and that it tempts people to speculate in securities, and has other similar ill effects.

394. When you say it is an advantage to have a low bank rate, and you refer to the obvious advantages of avoiding a high bank rate, do you mean that it would be an advantage to the Government, or to trade, or both?—I meant primarily to trade, and in fact to India generally; but incidentally whatever is good for India is good for the Government. I was not thinking primarily of the Government, except as a sharer in India's prosperity.

395. Do you not think that if anything can be done to prevent these high rates periodically in India it would be a great advantage to the Government in the matter of floating loans in India?—Yes. As a matter of fact, I believe that up to a certain point it is very easy to float a loan at certain periods of the year in India, because as against a very high bank rate in December or March there are very low rates prevailing in the dead season. Still generally I agree with your remark.

396. If you can bring about a state of affairs when the rate of interest would not rise to a high level in the busy season, the market would be in a better state to assist the Government at times when they do take loans?—I quite agree with you there.

397. So it would be to the advantage of Government as well as of trade?—Certainly.

398. The season of high bank rate corresponds, I think, with the Government revenue collecting season—I think Mr. Gillan has already brought that out?—Yes.

399. The Government begin to collect revenue in December and January and then the balances rise?—

The Government revenue usually comes in after the turn of the year. Those two things synchronise fairly well but not exactly—the time of a high bank rate and the time of revenue collection.

400. The minimum is in November and December and goes steadily up in January, February, and March, taking the balances at the end of the month. I think you will find that the Treasury balances mount up year after year in January, February and March, and that is the time when the bank rate is usually highest?—The reason I stopped for a moment was that I noticed that in 1910 your bank rate did not rise to 7 per cent. in Bombay until the end of March.

401. In that year there were very heavy sales of council bills, do you remember?—Yes. I merely say that though the two things generally coincide they do not coincide very exactly; but there is not very much in that point.

402. The usual process is that the revenue collected by the Government passes into the Treasury in hard cash—that is, in notes or in coin?—Quite so.

403. When paid into the treasuries in charge of the Presidency banks, the money thus collected in excess of the balances usually retained is removed to the reserve treasuries or to some other treasury where money may be wanted?—Yes.

404. The revenue money thus collected disappears from the market?—Yes.

405. That, we think, is a great factor affecting the rates of discount. You mentioned that you had been much impressed by the evidence of Lord Northbrook, I think it was before the Committee of 1898, regarding the establishment of the reserve treasuries in consequence of the difficulty experienced in the '70's in withdrawing money from the bank in Bombay?—Yes.

406. Having regard to the effect produced on the rates of discount by the reserve treasury system the remedy applied was an extreme one and most expensive to India; that is a view that I wish to put before you?—I have not compared the rates of discount so far back as the '70's, but of course if you say that there are considerable disadvantages in the reserve treasury system it is so obvious that one could not help agreeing with you.

407. In affecting the bank rate?—Presumably it affects the bank rate.

408. Most other countries have found ways and means of combining and organising their resources for the general benefit of the community. Do you think it is reasonable that Indian trade should continue to be penalised by high rates of discount during several months year after year because of the reserve treasury system?—No. As a matter of fact, referring to the preamble of your question, if you take what one may regard as the two most highly civilised nations, namely, England and the United States of America, I do not know which of them does less to help the trade in the manner you refer to. I merely say that in passing, as bearing on the historical fact. I quite agree with you that, so far as the unforeseen consequences of the reserve treasury system can be obviated with safety both to trade and the Government, it is a good thing to obviate them.

409. (*Chairman.*) With reference to what you said a moment ago, do you suggest that there is anything in England similar to the locking-up of this money in the reserve treasuries in India?—No. I understand that as a rule the Treasury has very little money because the money comes in and goes out *pari passu*, so that the Treasury does not as a rule place much money of its own at the disposal of trade by leaving it with the Bank of England. I do not know how much the balances are.

410. You do not suggest that that is due to its keeping up any reserve?—No. I thought Sir James Begbie implied that most Governments placed considerable sums of Government money at the disposal of trade. The United States actually takes its money, as I understand, and locks it up in treasuries. The British Government, as a rule, I believe, so adjusts, or has adjusted for it by circumstances, its receipts and disbursements, that considering its importance it has comparatively insignificant balances as a rule. I think you must not assume that England and the United States, which are two important nations, do what India fails to do.

411. (*Mr. Keynes.*) Whenever the Treasury has money at the Bank of England, it is in effect put at the disposal of trade?—Yes.

412. (*Sir James Begbie.*) The Government of England never take money away from the market to the disadvantage of the rate of discount?—No. They have no place to put their money except the Bank of England, I believe.

413. You referred to the very large Government balances which have been in excess of Government requirements, and you explained that they were due to exceptional causes which have almost passed away; but is it not the case that even with the loss of the opium revenue the total revenue will show a considerable increase over that of a few years ago?—It is very hard to forecast. You ought to remember that when the King went to Delhi he promised a great increase, or he made remarks which suggested the possibility of a great increase, of the expenditure on education and there will be on other things, such as sanitation. No doubt there will be heavy demands for expenditure, so that you cannot say whether in the next few years there will be considerable surpluses or not. I do not know that anyone could possibly speak with any confidence on that subject.

414. The point I wanted to make was that there is more revenue collected than in former years?—No doubt.

415. Is there not a possibility that as more revenue falls to be collected and the money finds its way into the treasuries, it will have a greater effect on the money market than formerly?—It depends, of course, on how much money is paid out.

416. On the revenue side there will be a tendency to affect the money market more?—On the whole I should say it was more affected by the balance that remains than by the gross revenue that is paid in.

417. (*Sir Robert Chalmers.*) Is that true? Suppose you have double the revenue?—And the expenditure?

418. Yes; would that not have an increased effect on the money market? Is it not a commonplace and accepted by everybody that you are taking money off the market when you are taking it out of the pockets of the lieges?—It depends, of course, partly on the amount you pay back and partly on the rapidity with which you pay it back. I can quite understand that if you take money by way of revenue collection early in the year, and then keep it for a long period before you spend it again, then, of course, you will have large balances for a time, and you will injure the money market.

419. (*Sir James Begbie.*) During the recent period of very high balances—I am talking now of the last three or four years—was the question considered whether the excess balances could be retained in India for use in the money market, with the object of avoiding high rates of interest?—No. I cannot say that that question really was considered. In the first place I may mention—which I have no doubt is familiar to you—that on a question of that sort the Government of India would naturally be the advisers of the Secretary of State, and I cannot recollect that on any occasion they did tender any advice on the subject to him. Then again, as various other members of the Commission have brought out, large sales of bills which drew the balances to England have had very great advantages; so that if any change had been made which prevented these large sales or if any such change had been proposed there would have been a great deal to be said on both sides.

420. You gave reasons which appeared to be regarded as conclusive against increased deposits with the Presidency banks; these reasons are based on what happened in 1875?—Yes.

421. Is there a good analogy between the circumstances of 1875 and those of the last two or three years?—No. You say, "which appeared to be regarded as conclusive." I do not know if you meant that I regard them as conclusive. If so, I do not regard them

as conclusive. As I explained in answer to another member, I think Sir Ernest Cable, I was anxious to put the facts, to show that the facts of 1874 were of some importance and weighed with the authorities from time to time; but I certainly would not set up the rather vulnerable proposition that we must necessarily be guided now by what has happened nearly 40 years ago.

422. The question of the earlier date of 1875 had reference. I think, to the ordinary balances of the Government; since 1909 there have been very large excess balances beyond the needs of Government, have there not?—Yes.

423. My question with regard to whether the matter had been considered by the Government about lending these balances had reference to lending balances in India and arose from the fact that there were these large excess balances available which could have been used in India if the Government wished?—I imagine, but I do not know, that from time to time the Government of India have considered the question; but they have not approached the Secretary of State on it.

424. You also quote, in paragraph 15 of Appendix I., the reply given by Sir Guy Fleetwood Wilson to a question put in the Legislative Council stating that "the Government of India lent con- "siderable sums out of their Indian cash balances "on deposit with the Presidency banks. They do "not consider it advisable to make a practice of "lending to the money markets in India in any "other manner or to any larger extent." The question I would like to ask is whether that reply was given without reference to the Secretary of State, if I may ask that question?—I am very glad you have asked that question, because I have seen that point raised, I think, in newspapers. There has been a suggestion made in what I might almost call an unfriendly spirit that Sir Guy Fleetwood Wilson was asked or instructed by the Secretary of State to make that reply. Now, what happened was that at the time that these questions were put, either by Sir Charles Armstrong or by Sir Cecil Graham, by one of those two at any rate, notice was given and certain figures were asked for which could only be supplied by the India Office. According to my recollection the Government of India telegraphed for that information and for anything the Secretary of State might wish to say to them regarding this question. I think it was Sir Cecil Graham's question.

425. (*Mr. Gillan.*) Sir Cecil Graham asked one question and Sir Charles Armstrong asked another?—I am on the question put in September. The Secretary of State gave such information as could only be supplied by the India Office and he may have made some general remarks about the series of questions; but on this particular one he said nothing; he left that as a question within the Government of India's purview to be answered by them as they thought best.

426. (*Sir James Begbie.*) Against this reply of Sir Guy Fleetwood Wilson you put in the note "that if "during 1912–3 the Government of India had wished "to place larger deposits from their Treasury balances "with the Presidency banks, they would not have been "prevented by lack of means at that time." It is the general idea in India that the Government of India held all their available surplus at the disposal of the Secretary of State for his drawings; is that the case?—No. I remember that in some of those old papers Sir James Westland rather emphasised that point. Of course, the drawings of the Secretary of State are one of the great drains on the Government of India's balances; but there are times when, as in this particular period that we are discussing, the Government of India have far more than is necessary to meet any reasonable amount of the Secretary of State's drawings. In any case there is another point I should like to mention which is perhaps a little intricate, but which is very important. Supposing that the Government of India had placed certain of their money with the Bank of Bombay on loan, say, for three months, and then the Secretary of State wished to draw council bills or to sell telegraphic transfers up to a certain amount, the Government of India would say to him, "You cannot "draw against this particular sum which we have "placed with the Bank of Bombay"; and the Secretary of State would recognise that he could not draw against that particular sum; it would all be taken into account in forming the estimate of what he could draw.

427. Then, I understand that in 1912–3 it was not the case that the Government of India did hold the whole of their balances at the disposal of the Secretary of State?—No, certainly not; but they no doubt were ready to meet his bills or his transfers when they were drawn.

428. You regard loans to the Presidency banks from the Government balances as an uncertain source, and you consider there is an objection to largely increased deposits being given to the banks from the Treasury balances, because they are uncertain; I would like to ask you if you hold the same opinion, and the same strong objection, no matter what the size of the Treasury balances may be—I rather think you have answered that question already to someone else?—Of course, if you do in one year a thing that you may not be able to do the next year, one person may say you are wise to do it when you can, because you confer a certain benefit at that time, and another person may say it is better not to do it at all, because you may raise, and have ultimately to disappoint, expectations. It is a matter really, if one may say so, almost of one's general judgment about things in general rather than a financial question.

429. Could not a point be mentioned or settled, and then if the Treasury balances exceeded that point loans might be given? Might not something of that kind be done?—Personally, as I hope I have made clear, I am in no way obdurate about these matters, in fact I see very great force in what you say. Still, it remains true that if the jute trade, or the cotton trade, in one year were largely dependent on the Government balances, which happened to be very big through some fortunate accident, and went on, say, for two or three years, and then the Government balances, through no fault of Government, fell down, the jute trade and the cotton trade might be very much hampered through the sudden withdrawal. I merely give you that for what it is worth; I do not say it is a conclusive argument in favour of or against any particular policy, but it is a point to be considered, and that it is all I wish to put about it.

430. You drew a distinction between loans to help trade and loans to earn interest, but India Office balances have been deposited with banks and lent to other banks and to discount companies, and these companies, as I understand, do help trade; there is not much point in the matter as between lending to the banks in order to assist trade, and lending in order to earn interest?—The difference between us there is very great indeed. If we were lending in India, we should be very anxious to consider the effect of the loans on the borrowers, I mean not to interfere with their general method of business, and not to raise expectations from them which we could not fulfil. As regards the borrowers from India Office balances we regard them with the utmost callousness. We do not care for these borrowers at all. We lend our money to a bank, or to an approved borrower, and it is understood that he has got to deposit security, and that he has got to pay the money back at the right time, and to pay his interest; there is between us, if I may use an old expression, merely the cash nexus. We want his interest, he wants our loan, and the relation is absolutely different from that between a more or less paternal Government in India and the trade of India.

431. Is there any reason why Government should not give loans in India for the sake of interest only?—No, certainly not. I have drawn your attention to the fact that all this danger of interference with trade, and disappointment if one cannot lend in the fifth year after one has lent in the four years, is rather serious in India, because the Government capital bulks so large in the comparatively small Indian money markets; whereas in England, if you lend one year and you do not lend another, it is so trivial that you do not by

withdrawing your loan money interfere with anyone to any appreciable extent. This is the distinction that I put.

432. But you think you might in India?—Yes, I think you might. I think that if you wanted to do in India what we did some months ago—I think we called in seven or eight millions in the course of three months—those figures are not exact, but they are approximate—you would cause a great deal of turmoil.

433. (*Chairman.*) I understand your view to be that if you lent in India, and had occasion suddenly to call in the money, you might create a crisis?—Yes.

434. But if you lent in England, and had occasion suddenly to call in the money, the likelihood of your producing a crisis is much less?—Yes.

435. In addition, you do not care if you do produce a crisis here, as it is not your business in the sense in which it would be your business if you produced a crisis in India?—Yes; and as an illustration of how much we can call in without disturbing the market, perhaps when you look at the papers which Mr. Badock is submitting to you, in which you will see our balances from day to day in the year 1912–3, you will note that between 28 September 1912 and 6 January 1913* we reduced our loans on the market by somewhere about eight millions. I do not know the exact figure, but you will see when you come to it what a remarkably large figure it is.

436. (*Sir James Begbie.*) You suggest that loans might be given from the paper currency department reserves rather than from the Treasury balances; would loans from that source necessarily ease the market? Suppose, for example, Government were granting loans from that reserve and at the same time accumulating money in the Treasuries to a large extent, then one operation would cancel the other so far as the money market was concerned, would it not?—I should rather put it this way. At present, if the Government were accumulating large balances, it would be taking money off the market and doing nothing to counteract it. If at the same time they lent money from the paper currency reserves it would be counteracting the stringent effect of its taking money off the market by means of its Treasury balances. Then there is a subtle question—I hope you will not press me on it, because it requires a very fine brain to answer it—namely, what exactly is the relation in every sense between the Treasury balances and the paper currency reserve? You see in a sense the paper currency reserve is merely the solid backing of the paper Treasury balances.

437. (*Mr. Keynes.*) Is it not the case that the money in the reserve treasuries is almost wholly in notes?—I think entirely.

438. So that when there is a great deal of money in the reserve treasuries, that means there is more money in the paper currency reserves?—That is so.

439. So that when there are high Treasury balances that shows itself in its being easier to make loans from the paper currency reserves?—That is so.

440. Therefore the two things give alternative methods of effecting the same purpose, not rival ones, as suggested?—Yes. I was trying to put that point to Sir James Begbie, but at the same time to steer clear of a very elaborate discussion of it. I think that owing to Mr. Keynes' kind help now the important part of it is clear, is it not?

441. (*Sir James Begbie.*) Not to my mind, taking it from the money market point of view?—Just allow me to put it this way and I think one can make it clear. At a certain moment we have so much in our reserve treasuries let us say, and then owing to the collection of revenue, and what not, we get, say, an extra two crores in our reserve treasuries, which are two crores of notes. Presumably at the same time that those two crores of notes came into the reserve treasuries, two crores of rupees went into the paper currency reserve as against those notes. If we lent that two crores of rupees it is really just as good as if we lent our two crores of notes.

442. I will give you an example of what happened last year. The Secretary of State last year drew heavily on the Paper Currency Department—that was for the purchase of silver, I think, for coinage. The effect was the same as if a loan had been granted from the currency reserve, and the same as if the money had been lent to a bank and by the bank to the market, that is, the money went out of the currency reserve and went into the hands of the public. At the same time the Government were accumulating pretty large balances in Treasuries. There was a case where you had the same effect as if the loan had been granted from the paper currency reserve, and at the same time you had Government balances going up, so that the one cancelled the other, so far as the money market was concerned?—I should like to look into that in detail and see how far you and I hold the same views as to the effect of it; but I might say this, that if the effect on the money market of the accumulation of the Treasury balances were cancelled under some future arrangement by loans from the paper currency reserves you would at least be better off to the extent of the cancelling.

443. The point I really wanted to make was that the accumulation of money in the Treasury was the greatest factor in forcing the bank rate to a higher level?—I should say that it would cease to be the greatest factor if the balances were accumulated in notes and a part of the reserve held against those notes were lent or deposited.

444. Then loans from the paper currency reserve raise a larger question respecting the suitability of such loans in a country like India, where metallic currency still forms the medium for the great bulk of monetary transactions. Already the reserve in India has been depleted by the removal of several millions sterling to London. A serious problem might arise if in addition the reserves were further depleted by the grant of loans which almost certainly would be taken in coin; you might give such loans from the currency reserve and the money might be taken in notes, but the notes would probably be presented for cash almost immediately?—Exactly.

445. So you would have the risk of loans further depleting the coin reserves of the Paper Currency Department?—I should say that that risk is an extremely remote one. If you look through the figures which Mr. Newmarch gives on pp. 248–9, Appendix VIII., you will see that the lowest amount to which the paper currency reserve fell within the present generation was rather less than 6 crores of rupees. When the amount has gone down as low as that there is a serious risk. Nowadays we have, as you know, a standard of something between 17½ and 24 crores, and if we granted loans from the paper currency reserves perhaps that would have to be raised a little. With any such standard as we have at present I think that the risk of running short of metallic currency, or even of one particular form of metallic currency, namely, rupees, can be disregarded; I am not in any way perturbed about that.

446. Of course, you recognise that the rupee reserves are replenished occasionally by fresh coinage?—Yes.

447. Do you take that into account also, that you might have to coin if you granted loans to a large extent from this reserve?—Supposing that what I may call our critics are right in thinking that sovereigns are as acceptable as rupees, then loans might be granted, either directly or indirectly, in sovereigns; but if the rupee is still, as I believe, the favourite currency of the people of India, then from time to time we should have to coin rather more rupees. But you cannot, if I may so put it, have more money in the country unless you coin more money.

448. There is a risk, is there not, in the further depletion of the paper currency reserve, because you have got to remember that if the reserve in the Paper Currency Department does fall to a lower level, then the reserve of your paper issue will be affected—it may be a remote contingency now, but the risk is there?—I do not know that on this point there is very much trouble. The management of the stock of rupees to

* Appendix XI., pp. 323–6.

be held in the paper currency reserve, though it did give rise to some difficulty years ago, is really an exceedingly simple thing. You have to allow for certain risks, and it is quite easy, and I am sure that anyone with official experience would say so, to allow for those risks.

449. You give a statement in paragraph 15 (2) of Appendix I. for the purpose of showing that the Government deposits with the Presidency banks might perhaps be regarded as a high proportion of the capital and reserve and of the cash held. I would like to say that the statement is drawn in an unusual form. I think it is recognised generally that the safety of depositors does not depend on these proportions. I would also like to mention several particulars about the Presidency banks generally for the purpose of showing that there is not the same anxiety, and should not be the same anxiety, about lending to Presidency banks, or depositing with them, which your memorandum rather seems to suggest. I would like to say that the Presidency banks publish weekly statements of their affairs, and that I think is a valuable safeguard for depositors. Then the banks are incorporated by statute which also regulates the business in which they may engage, and which excludes operations in foreign exchange. Then the byelaws drawn up by the directors require the sanction of the Governor-General in Council before they become effective. Another thing is that it is most difficult to get any alteration of the powers of the banks, or any extension of the powers, even to assist the enterprise of public bodies, as was shown when it was proposed to empower the banks to deal with the shares of assisted railways and the securities of district boards. The Government of India deemed it necessary to consult the Chambers of Commerce before they amended the Act as desired?—Perhaps I might say that on the main point I think there is complete unanimity of opinion between us, that is to say, I recognise—and I am sure everyone who has had to do with the India Office or the Government of India recognises—that the Presidency banks are very great and important institutions which render the most valuable service both to the Government and to India generally, and they are bodies of very great strength, who can always be relied upon to meet their engagements. But having taken that for granted, I did draw attention, for what it might be worth, to certain proportions which perhaps have a bearing on the question of the feasibility of large increases of Government deposits. If I gave the impression that it was in any disparaging spirit to the Presidency banks that I mentioned these facts I am extremely sorry; I had no such intention.

450. You also deal with the question of deposits or loans with other banks in India, and you refer to a discussion that took place in Calcutta between the representatives of certain exchange banks and the Finance Member of Council, when the impression given was that the banks concerned would not welcome an extension of the practice of placing Government money with the banks, at any rate if introduced on a large scale. I draw attention to that for the purpose of asking whether it is the case that loans have been given to the British exchange banks by the Secretary of State from the India Office balances—I think you have already said so?—Yes; I gave particulars to Mr. Keynes.

451. The rates of interest at which these loans were given, I understand, were under the Bank of England rate?—I should think ordinarily they would be, because the Bank of England rate is what is properly called a discount rate—the rate for discounting bills. That is rather different from a rate for a loan for three weeks, or whatever it might be.

452. You also deal with loans to firms and institutions other than banks in India, but I think you mentioned that such loans have never been granted so far as you are aware?—Yes.

453. Do you think that loans given to other banks or private institutions would have the same useful effect as loans to Presidency banks?—I see the tendency of your mind, and I agree with you in substance, though perhaps not for the same reason. I think it is much better, if the Government is going to lend, that it should lend to big banks like the Presidency banks. As regards the effect on the discount rate, I expect it is the case, as you say, that a given loan will be more effective if placed with a Presidency bank than with an individual firm.

454. It would have the effect of affecting the bank rate?—Yes, I should agree with you there. That is a point that had not occurred to me, but I think, if I may say so, it is a very sound point.

455. (*Sir Robert Chalmers.*) Is it quite certain in your mind that the effect would be different?—It is not quite certain, but I should rather say that if you had to lend, say, 200,000*l.*

456. The money would get on to the market?—Just forgive me for a moment—you might lend it, say, to someone like Sir James Begbie, or you might lend it on the other side of the table to Sir Ernest Cable, the owner of a jute mill; I think probably you would have more effect on the money market if you lent it through the bank which would have the option of lending it to the owner of the jute mill than if you lent it to the owner of the jute mill direct.

457. Do you think the money is worth more in the one hand than in the other?—Just consider this: Supposing you lend the money in hard rupees, you know that on every single rupee the ingenious banker builds up a credit superstructure of several rupees, so if we lend, say, 20 lakhs to the Bank of Bombay they would lend against that in the form of banking money perhaps 40 lakhs.

458. What would the jute man do with his lakh if it were lent to him direct?—He would pay his employees, or pay the cultivators from whom he bought his raw material.

459. Would he not pay it into a bank as a deposit to draw against?—He might for a very short time.

460. (*Sir Ernest Cable.*) It would be used very rapidly, of course?—He would draw it out again to pay for the raw material.

461. (*Sir Robert Chalmers.*) Would he draw it out and use it more rapidly if it came to him direct from the Government than if he had got a credit at the bank?—I cannot say.

462. (*Lord Faber.*) If it went through the bank, unless the bank put something on for interest to its customer, I do not see how it would do more for the money market than the jute man would have done?—I should have thought that if you have a choice between paying a certain sum in actual metallic money to a bank or to a manufacturer who, perhaps, will not take the trouble to bank it in the interval between his receiving it and spending it, you would probably do more for the money market by giving it to the banker, who would build up his credit superstructure on it.

463. It is very arguable that the money is the same wherever you lend it, unless you add something on to it and charge for it?—If there is one proposition with which I should not agree it is that money is the same wherever you put it. Money seems to me to differ enormously according to where it is put.

464. (*Sir James Begbie.*) With regard to the question of council bills, the origin and purpose of the council bill system was for the purpose of remitting money from India to England to meet the actual disbursements of Government, was it not?—Yes, that is right.

465. At the present time Government bills are used for a much wider purpose and a much larger purpose?—Yes, there has been an extension of the system. There has been no change in kind, but it has gradually spread over a larger area of transactions.

466. You use council bills now not only for remitting the money which Government itself requires in London but also against the Paper Currency Department, for example, or sometimes against the gold standard reserve?—We sometimes sell bills, you mean, which the Government of India cannot meet from Treasury balances, and which they can only meet from their paper currency reserve; that is so. A great many questions arise out of that.

467. In your memorandum (Appendix I.), so far as I can judge, there is no clear distinction drawn between

the different purposes for which council bills are drawn?—I would say this, that from the one side they are drawn in order to enable the Secretary of State to meet the various kinds of expenditure which he has to meet in London, both revenue and capital, both immediate and future. That, I should say, is the main purpose; but incidentally the system is so worked as to give certain reasonable facilities and conveniences to trade.

468. In the memorandum presented to Parliament (Cd. 6619) you gave a number of various reasons why council bills were sold in excess of the Secretary of State's immediate requirements, I think?—Yes.

469. You have four different reasons, I think?—Five.

470. Do you not think that these give the Secretary of State considerable range of options when bills are wanted?—If you mean that it leaves him a great liberty of action, yes; but not an unreasonable liberty. Of course, much depends on whether the way he does his business is made clear or is not generally recognised. I think it is a very great advantage that he should, as it were, put his cards on the table and say, This is the way I do my business of selling council bills. I think the India Office have been very keen on making it clear.

471. In the case of council bills drawn against paper currency reserves is it recognised that there should be any special rate on such bills?—No. Of course, such bills would only be sold at a time of great pressure, and the rate would usually be well over 1*s.* 4*d.*; but it has not been decided, as was suggested, I think, by one or two Members of Parliament, that such bills should only be sold at 1*s.* 4$\frac{1}{32}$*d.*—at the maximum price, I think that is the suggestion you are referring to.

472. Yes; it has not been laid down as a fixed rule, has it?—No, it has not.

473. Do you not think that is a necessary measure?—I do not know that there is any great advantage in it. It is, if I may say so, a point of such minor importance that I do not think if good reason were shown the Secretary of State would be obstinate about it. I think the difficulty is that people have assumed that 1*s.* 4$\frac{1}{32}$*d.* is the real gold point, I mean the lowest point at which gold and council bills compete, and, therefore, there is a peculiar sanctity about it. As will be shown to you in other evidence, that is not the case. The gold point is really a fluctuating point. I cannot see anything very much one way or the other on the proposal that these particular sales shall be at this specified rate.

474. I do not propose to go into that matter further at the moment. As you say, we will probably have that later on. You have told us that since 1904 there has been, for instance, an undertaking to sell bills without limit of amount at 1*s.* 4$\frac{1}{32}$*d.*; was that undertaking given with reference to ordinary council bills, if I may use the term, against Treasury balances?—Yes.

475. Not against the currency reserve?—No. From the point of view of the public there is no difference. If a man or bank comes and buys a council bill he does not ask from what source the Government of India or the Secretary of State are going to meet the bill; to him it is a simple bill and nothing more.

476. In the case of the council bill sales against the gold standard reserve, I think the point has already been mentioned to-day that the Government were very anxious to get the reserves of rupees collected at that time transferred into sterling?—Yes; that was after the exchange crisis.

477. At what rate did the Government begin to sell at that time against this special reserve?—I do not think that that is a question one can answer exactly, for this reason: In the course of a year one sells bills, say, for 23 millions sterling, just to take an illustrative figure, and then at the end of the year, perhaps, the Secretary of State says, For my Treasury purposes I am satisfied with 18 millions of these proceeds, therefore I will appropriate the odd five millions to the gold standard reserve and invest that five millions. But one does not day by day or week by week as one sells a bill say, This is sold against the gold standard reserve. The appropriation is done just as one makes up a balance sheet for a bank at the end of a period of half a year or a year, as it may be.

478. In this particular case sales against the gold standard reserve were bills sold under 1*s.* 4*d.*?—These bills to replenish the gold standard reserve were mainly sold in 1909–10, I think, and the average rate in 1909–10 was for the first six months of the year 1*s.* 3·951*d.*, and for the entire year 1*s.* 4·041*d.* I think some of them were sold in 1910–1, but I am not sure of that for the moment, and the average rate was 1*s.* 4·019*d.*

479. In the year before that were there any sales against this reserve?—Yes, at 1*s.* 3·931*d.* I am not sure whether anything was sold to replenish the reserve in the earlier of those two years, but I shall be able to tell you by looking it up.

480. In the case of the gold standard reserve, that was a fund established for the purpose of supporting exchange, and of preventing exchange falling below a certain figure?—Yes.

481. That came into use in 1907–8?—Yes.

482. And a very large amount of rupees were collected in India in consequence of the sales of bills in India on London, the rate at which that was done being 1*s.* 3$\frac{29}{32}$*d.*?—Yes.

483. That is the outward gold point, I understand, or what is supposed to be it?—Yes.

484. If that fund is used in that particular way to prevent exchange from falling, should it be used in the opposite way at anything below the gold import point?—I have heard that argument, and I must say that to me it is extremely unconvincing, if you do not mind my saying so. You use this gold standard reserve in order to prevent the rate of exchange from falling below what you call the outward gold point, or the gold exporting point; and it serves its purpose. You find that fund is for the time being useless for further application because it is not in rupees. Then the important thing is to get it home again, or at any rate to get it again in the sterling form in order that it may serve the same purpose a second time if the occasion arises. If you could do so, keeping the exchange within the gold points, if I may use a technical expression, you have obviously done a very great service in removing the risk of a future fall in exchange. If you are yourself to be prevented from doing that by some scruple against selling your bills at 1*s.* 3·999*d.* when you think you ought to sell them at 1*s.* 4·001*d.* then you are sacrificing the weightier matters that you ought to look after to a consideration that is of very little weight, if indeed of any weight.

485. Are you not breaking through your own arrangement about the gold standard? You fix the standard with the exchange at 1*s.* 4*d.*; if you use this special fund to import money below your gold standard is that not going against your gold standard policy?—I think I might answer that both practically and scientifically. Practically, I would say that if you had to manage the Indian exchange system, and currency system, I am quite certain that you would do exactly as we did, and I think if you ask yourself, Sir James, you will say that that is so too. Scientifically, I would say that when you have a par of exchange between two countries with an upper gold point and a lower gold point, the natural thing is to carry on your ordinary transactions in your ordinary way so long as your exchange is between that upper gold point and that lower gold point, and to stop your transactions when the rate falls somewhere between the par of exchange and the lower gold point has no justification. I am certain it has no practical justification, and I do not believe that anyone has ever put forward any theoretical justification for it.

486. At any rate, I understand that in managing the sale of these council bills the rate of exchange is not specially considered as regards whether the sales should be made at or over the 1*s.* 4*d.* point?—What I think I said in answer to Sir Ernest Cable is that one would ordinarily sell at or above 1*s.* 4*d.*, but the Secretary of State has that latitude that at times he sells between 1*s.* 4*d.* and 1*s.* 3$\frac{29}{32}$*d.*,

487. And that is a latitude which he exercises not only in the case of Treasury drawings, but also in the case of drawings against the paper currency reserve and the gold standard reserve?—As regards the paper currency reserve, I do not think he would, for this reason, that, as I said to you, it is only when there is a great pressure for exchange on India that he sells against the paper currency reserve, and then *ex hypothesi* the rate would be higher than 1*s.* 4*d.*

488. In paragraph 28 of Appendix I. you quote from paragraph 70 of the Report of the Indian Currency Committee of 1898–9, but, I think, condensing the paragraph which you quote. You say, "'It is eminently "'desirable that in order to assist towards the speedy "'establishment of an effective gold standard in India "'the Government of India should restrict the growth "'of their gold obligation.'" I rather think that the paragraph quoted contains a good deal more in it?—I assumed you would have it before you when you read this; but I have not left out, I hope, anything that is material to what I was putting. I have the report here.

489. I was going to say that it includes the idea that capital should be encouraged to flow freely into India for the further development of her great natural resources; whereas in this paragraph of your memorandum I understand you to recommend and to support the idea that the Secretary of State should encourage the flow of gold from India?—I do not think that that is a natural construction of anything that I have said.

490. You refer in paragraph 28 "to the general "advantage of restricting, as far as may be, the growth "of a country's external debt and to the practical diffi- "culties attending the issue of large annual loans in "London on behalf of the Government of India," and you say, "the Secretary of State endeavours to obtain "from funds provided in India as large a proportion "as practicable of the money required for each year "for expenditure in England on account of India." If you increase the amount of council bills, do you not encourage the flow of gold from India? You may not actually make the gold flow from India, but you prevent gold from coming in?—Yes.

491. You increase the gold obligations, do you not?—I do not think that we are in the same region of the subject. You are speaking about gold actually going to or from India, and on all that you say there I think I agree up to a point. But in this paragraph the Fowler Committee were discussing the importance of not increasing India's external debt, and the annual interest that she had to pay on her external debt; and when I was preparing this memorandum it occurred to me that some very important things might be conveniently linked on to that remark of the Fowler Committee. Where you are speaking of gold obligations with reference to the Fowler Committee, that is a question of loans; this particular part has nothing to do with the gold currency.

492. The idea of that paragraph, as I read it, was that the Fowler Committee recommended a gold standard, and the gold standard was to be associated with stability of exchange, and so on, and capital should be encouraged to flow freely into India. That is, as I take it, the meaning of the paragraph; and when they said that they suggested the growth of gold obligations should be restricted, I understand they meant that loans out of India should not be encouraged more than necessary?—Quite so.

493. But in paragraph 28 of Appendix I. you point out that the Secretary of State endeavours to obtain money from funds provided in India for the expenditure in England, and if you take the case of the last two or three years you will find that the amount of money which the taxpayers in India have had to pay for export to London has been very great indeed—much larger than in previous years?—Let me see that we are quite on the same ground. I well tell you, if I may, the connection between these two things. The Fowler Committee said, keep your sterling loans as low as possible. That was a wise thing to say, and the reasons given were good reasons in those days. I put in my memorandum that the advice is still good advice, but I point out, and I am sure most people would agree, that the reasons why it is good are rather different from what they used to be. Then I say, if you are to carry out this good advice, which remains good, though for changed reasons, provide as much as possible of the money you are going to spend from resources raised in India. Surely that is a faithful following of the precepts of the Fowler Committee.

494. Take it this way. During 1910–1 and 1911–2 I understand the amount of council bills remitted from India to England was roughly 24 millions sterling—we will say 8 millions in excess of the ordinary amount?—You have the figures exactly.

495. That is to say, the taxpayers in India were paying 8 millions sterling in excess of what they usually have to pay; that represents, if you capitalise it, borrowing to the extent of about 200 millions sterling?—Really, I cannot follow you there, partly because the taxpayers are not paying a penny more. The scheme of taxation, you may take it from me, is not made with reference to the sale of council bills, or anything of that sort; it is made with reference to the desirability of having a moderate surplus of revenue over expenditure. That scheme of taxation has a result at certain times of giving the Government of India extremely large sums of money. That is perfectly simple and familiar, is it not? Then the time comes when we have to consider: We want to spend so many millions on railway materials in London; shall we get the money by bringing over our surplus money from India, in which case we shall not pay any interest, and we shall not be increasing our gold obligations, and we shall be obeying the Fowler Committee; or shall we take the alternative course, which I hope you do not recommend, of issuing a large loan in England while allowing our rupees, which we could use, to lie idle in India? I have explained that the Secretary of State always, and rightly, prefers, when he can, to avoid issuing the big loan in England, and, in preference, to get money by remittances from India—of course, when he can do so, I mean, without sacrificing any Indian interest.

496. (*Chairman.*) In other words, I understand that what the Secretary of State does is to pay for these railways out of revenue whenever he can instead of increasing his capital account?—Out of the surpluses which are the result of revenue transactions.

497. (*Sir James Begbie.*) These surplus revenues have been very large lately?—Yes, they have.

498. (*Sir Robert Chalmers.*) But it has at times been the other way?—Yes, it has.

499. (*Sir Shapurji Broacha.*) Is it not inconsistent to say that the Government will lend at the bank rate and yet that the Government will not lend because the money would not be forthcoming when wanted? I do not talk of 22 millions because I know that it is difficult to lend 22 millions in India. Still, it is not difficult to lend 4 millions or 5 millions or 6 millions?—When you say it is inconsistent, what exactly do you mean?

500. You do not assign any limit to the Government lending at the bank rate, do you?—At what stage do you mean that we do not assign a limit? I am not sure that I see exactly at what point we are inconsistent.

501. You pay brokerage for lending money, and the Secretary of State deals through a broker, and is not a guarantor for the borrowers of the money. Do you think a bank which takes the responsibility of guaranteeing the loans would do without some brokerage or commission? Is that not inconsistent?—If I understand you, you think that if we lend to the Presidency banks we ought to lend at less than the bank rate?

502. Yes, as some commission for guaranteeing the loans for the public, because the Presidency banks deal with the public?—I see great force in that, if you will allow me to say so. That is about as far as I need go at the moment.

503. I think that despatch of 1874 on pp. 30–31 of Appendix II. is ancient history so far as the monetary conditions of India are concerned. The deposits since then have increased 800 to 1,000 per cent.; since 1892

the circulation has quadrupled, and since 1909 the circulation has doubled. Is there not, therefore, certainly some distinction which the Secretary of State ought to consider between the India of 1874 and the India of 1913?—No one would hold that more strongly than I do. I was merely going to mention to you that in all these matters we are to some extent tied to the history. If you come to the history of why we do this, that, and the other, the history leads back ultimately to a very remote and useless period.

504. I am talking only of Indian balances; I am not talking of London balances. We know that the revenue does not come in freely until after December, and we know that between June and December money is going begging at 2 per cent. For the last three years I have been borrowing for six months money at 1½ and 2 per cent. on Government paper in India between those months, and it is only when the money commences to go into the treasuries in payment of revenue and the money market is depleted that the price goes up. If you will kindly look at the figures in Appendix II., page 76, you will see that on March 31 you had balances in the treasuries in India amounting to 19¼ millions, out of which you have put 3¾ millions with the Presidency banks; that leaves in the hands of the Government something like 23 crores of rupees?—Yes.

505. Or 13 crores more than the minimum balance which Sir James Westland and others have required?—Yes, but do not quote him as the standard. Your case, if I may say so, is a strong one from your point of view, but I do not think you strengthen it by comparing it with Sir James Westland's standard, which is rather obsolete.

506. If of those 23 crores 3 crores had been lent to the Presidency banks, money would have gone down to 2 per cent., and yet India and Indian trade has been suffering very much now through want of money, because the money has gone into the vaults of the Treasury?—Perhaps I might say this, which would help possibly: The Secretary of State has been approached by various correspondents who point out to him——

507. Do you think that with all these advances in the Indian money market India is still to be considered to be in as beggarly a condition as in 1874, and therefore is not to be trusted with a little more money? Is all the wisdom on this side here?—It is not a question of trusting. The whole question is one, or very largely one, whether it would do a money market good or harm or more good or more harm to get money from a somewhat uncertain source.

508. There are now 14 millions in the Bank of England belonging to the Government; suppose that they were withdrawn, what would the other bankers say?—Are there? Is it the Government debt, or what?

509. It is just the same as if it were in the Presidency banks—nothing more or less. Do you know that the Indian Presidency banks are regulated by the same rules now as the Bank of England in the matter of lending, and that it must be wholly on authorised securities, trust securities?—I think they are more tied up than the Bank of England—much more.

510. Will you show me any other Government that takes into the Treasury all the balances of the public and allows the people to starve, because of an event which happened 40 years ago?—I can show you the American Government; however, I do not say that it is a good precedent.

511. Has the Secretary of State considered the advisability of lending more freely to India now that the circumstances have changed?—As I explained, it was considered in 1899 I think, or 1900; but since then his natural advisers in the matter, the Government of India, have not approached him on the subject.

512. I only want these points to be brought before the Commission for their consideration. In the matter of council bills I do not think the council bills impede the flow of gold. I see that you sold last year council bills to the extent of 25 millions, and you imported gold equal to 31 millions, 19 millions being in sovereigns, and about 12 millions in bars. Surely that does not mean that this selling of council bills above the allotted amount impeded the flow of gold? I think any country importing 31 millions of gold would have something great to boast about?—In a sense you are defending the India Office against its critics, but I think you are defending it almost too wholeheartedly.

513. Do you know that the import is not always from here? From Australia we can bring gold and also from Egypt cheaper than from London. I think in this respect, therefore, that the Secretary of State was right in selling council bills for his requirements?—I venture to agree with you on that point; I quite agree that you cannot work to a supposed gold point when it is a very shifting thing.

514. Taking these 22 millions that you have accumulated here, of which the balance now remaining is only 4 millions, if that money had been sent to India it would have had to be brought back to pay the anticipated demands of the Secretary of State here?—I have argued that in my memorandum (paragraph 50 of Appendix I., &c.).

515. Since you are against lending it in India, I do think this money should have fertilised in the shape of interest?—You may have noticed in my memorandum and the supplementary notes that I have dealt with that very fully (*see* Appendix I.).

516. The advisers of the Secretary of State consulted the City money market in 1908, if I remember aright, as to how much they could borrow in England for Indian productive works, and whether they could borrow in advance, and the City advised that whenever the market is easy they should borrow for one, two, or three years together?—We consulted the City, that is to say, some very eminent financiers, about railway borrowing and so on,* and we got a great deal of advice, very largely discordant, and much of it I can assure you has been belied by subsequent events. So you cannot base anything on those incidents.

517. Therefore, I think that after keeping enough for the legitimate needs of Indian trade, any surplus that then remains in hand, if it could be placed out without detriment, in England, it should have been done, India being a debtor country just as Japan is and Russia is; do you agree to that?—I do not like to lay down a very general doctrine about any matter of this sort. I hold to my own view that the Secretary of State ought, as far as possible, to bring home from India what he wants to spend on behalf of India in this country, and that he ought to do it sometimes in advance, because otherwise he may not be able to do it at all.

518. As you know, trade is provided for in India in two ways—the internal trade by the Presidency banks, and the external trade by the exchange banks; therefore ought not the exchange banks to be helped in bringing out money to India, as the Presidency banks are to be helped for carrying on the internal trade?—Yes.

519. I think the conditions obtaining in India do not obtain here. In India the Government have to keep a large balance for contingencies, while in England the Government may be indebted and have no balance at all, but that is because they have a larger market to depend upon?—That is so.

520. (*Sir Robert Chalmers.*) That has nothing to do with the surplus balance?—No. I think Sir Shapurji was speaking there really with reference to the working balance.

521. You want a larger percentage in the form of a balance in India I gather?—Yes.

522. That balance would be needed?—Yes.

523. (*Sir Shapurji Broacha.*) Really the credit of the Government of India has not declined or depreciated at all, but I think English capital has become bolder within the last eight or ten years, and is seeking for a larger rate of interest?—The causes which have led to the fall in the price of Indian securities which, as Lord Kilbracken has said, is a better phrase than the decline of Indian credit, are very varied.

524. When you borrowed 5 millions at 95 for the railways, why was not that loan offered in India? It

* *See* in this connection Cd. 4111 (Report of the Committee on Indian Railway Finance and Administration).

would have gone off like anything at par?—I would rather not be understood to accept that.

525. Of course with the consent of the Secretary of State the Southern Mahratta or some other railway company offered their 4 per cent. loan at 99 for a fixed period, not for a period that the Government might choose to observe?—This loan that you speak of was issued at 99, and the rate of interest was 4 per cent. You suggest that it might have been floated with much greater advantage in India. I can only assure you that the Secretary of State is very much alive to the importance of doing his borrowing in India; he is continually consulting the Government of India about it, and he must be to a great extent, as he is in fact, guided by their advice.

526. In this case I think he was badly advised. As you know, we have 4 per cents. standing at 102 or 103, our Improvement Bonds for instance?—I have had the opportunity of discussing with your neighbour, Sir James Begbie, some of these points on a previous occasion and I very much doubt if I take him and you as two eminent Bombay financiers, whether he and you would come to the same practical conclusions on these points that you are now discussing.

527. Have you well considered the question of a State bank; is it not a large order?—I have considered it to some extent, and I hope, as I said, to write a note about it later on.*

528. The Bank of England does the business efficiently of the British Isles; suppose the Bank of England had to do the business of the Bank of France for the French people, and the Bank of Germany for the German people, and to do the same service to Italy that the Bank of Italy does, and so on, taking the whole of Europe right up to Moscow; do you think that one State bank could be established to manage such a large extent of business? As you know, the population of India is just equal to the population of the whole of Europe, except perhaps half of Russia, and as you also know, there is less difference between English people and Italians than there is between the people of the north of India and the people of the south of India. Do you think that that large order could be established brand new without an evolutionary period?—I have always recognised that one of the great difficulties in the way of a State bank is that it would extend over so large an area, that is to say, the whole of India, and over an area which has hitherto for banking purposes been divided up into three distinct territories. You will see when you read these papers of 1900 and 1901, to which reference has been made once or twice, and which are being printed for you,† that the whole scheme of those years for an amalgamated and central bank broke down in consequence of what we called in our jargon provincial and local jealousies. I quite realise that, as you say, the same cause may wreck any future scheme. But I do not think one need begin with the assumption that the mere diversity of interest and the mere size of the area will necessarily be fatal to the scheme. That is all really that at this stage I can say on it.

529. Have you considered the location of such a bank, whether it should be at Calcutta or Delhi, say?—That is rather a matter of detail which is beyond my province. If I say Calcutta, I could not give any very full reason for it, but Calcutta is what would occur to me as a possible place.

529A. (*Lord Faber.*) All the State banks have a large number of branches?—Yes, but I think Sir Shapurji is thinking of the head office; at least, I imagine that is his point.

530. (*Sir James Begbie.*) With reference to the opportunity of purchasing bills and telegraphic transfers on India as an alternative to consigning gold for the discharge of the trade balance due to India, that is stated to be a great convenience to trade; that is a phrase which occurs pretty frequently throughout these papers, and I would like to ask you what you understand by the trade. Do you refer to any section or do you refer to the trade of India as a whole?—That is a very interesting question, because one never knows exactly how far influence extends. If one traces the influence from its source, it would first affect the people who buy our council bills, who are the exchange banks, and perhaps one or two big firms. No doubt it is well known to you that Messrs. Ralli, who are very large merchants, buy our council bills. I think it would be a very controversial thing to say that they are the only people who benefit by our sales of council bills to them. I should say that really all the innumerable people with whom they are connected, either directly or indirectly, the big importers, the big exporters, the producers who are, as it were, low down on the distant horizon, must surely all benefit if a convenient and rapid method of making remittances is used instead of an inconvenient and slow and cumbrous method. I think that is the real answer to that question.

531. It is a section of the trade which gets the advantage of the sale of these council bills, is it not—the export trade?—That is the trade which first benefits, and certainly it is the export trade, including the big houses, the producers, and so on, which probably gets the greatest advantage.

532. The internal trade only comes in as a secondary matter?—I quite agree with you there. I think I said in answer to one Commissioner that though council bills are a remedy for some cases of stringency which are due to the activity of the export trade, there may often be troubles and tightness of money in the Indian money market due to other things for which the council bills afford no remedy. I think on that we are at one.

533. (*Chairman.*) How are the approved borrowers chosen?—That is a subject which is rather Mr. Badock's speciality, but I can tell you in general terms. At the present time any firm wishing to get on to our list would, in the first place, ordinarily approach the broker, Mr. Horace Scott, whom probably you will be examining. He would report the application to the Accountant-General of the India Office. Then information would be gathered, partly by the broker and partly by the chairman or members of the finance committee, as to the general trustworthiness of the firm, its capital, the class of its business, and so on. Then the recommendation would be made to the Secretary of State and the council that such-and-such a firm be admitted; further, it might be specified that the limits to be imposed on loans to be granted to that firm should be so-and-so. If that were approved—and there is no doubt it would be if it were supported by the finance committee—then the firm would be on our list of approved borrowers. Perhaps I ought to say, to make it complete, that formerly that sort of matter was much more in the hands of the chairman of the finance committee as an individual, but now the full procedure that I mentioned is gone through.

534. (*Sir Shapurji Broacha.*) Returning to the 31 millions that I spoke about to you just now, did not the whole of that, except 4½ millions, go into circulation or into the hands of the people last year?—I think a great deal of it was gold bullion, which would not go into circulation. It would be merely used as bullion.

535. It has gone into the hands of the people?—A small amount has gone into Government treasuries and that amount is given in the various statements.

536. (*Chairman.*) It has gone into use but not into circulation, I understand?—The bullion has gone into use or disuse, and the coin has either gone into circulation or hoards, or is used for other purposes.

537. May I come back for one moment—and I hope it will only be for a moment—to the question of the sale of council bills and the amount of them which is sold? Shall I be correct in saying that the amount of council bills that is saleable depends upon the trade demand for them?—Quite so.

538. Should I be correct also in saying that the Secretary of State sells to the full extent of the trade demand?—Yes; subject to the limits of price which, as it were, govern and regulate the demand, I think that would be quite correct.

* *See* Appendix XIV., page 339.

† *See* Appendix XV., page 355.

539. I think he does so, because even if he brings home money in excess of his immediate obligations it is money which in his opinion is not needed in India and which can be usefully employed for India in London?—Yes. The only criticism I would make on that is that he does not form the opinion whether it is needed in India; he is guided in that naturally by his advisers, the Government of India.

540. It is money which, in the opinion of the Indian Government, is not required there, and which, in the opinion of the Secretary of State, can be usefully employed for India's interest here?—Yes.

541. Meaning by that, not her trade interest, but the interest of India as a whole as represented by the Government?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

THIRD DAY.

Thursday, June 5, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

542. (*Chairman.*) I propose to-day to turn to the question of the gold standard reserve. In the course of our reference we are directed to inquire into the steps taken with regard to the location, disposition, and employment of the gold standard and paper currency reserves, and whether the existing practice in these matters is conducive to the interests of India. You have handed in a memorandum entitled "The Gold Standard Reserve" with a supplementary note, and some correspondence and statements in illustration of what you have written?—Yes.

543. We may take those, I think, as part of your evidence to be printed with our proceedings?—Yes. (*See* Appendices III., IV., and V.)

544. I think I am right in saying that when the reserve was being set up in 1900 the view of the Government of India was that the reserve to be established should consist entirely of gold?—Yes.

545. And that that gold should be held in India?—Yes.

546. But the Secretary of State decided that it should be held in London?—Yes, that is so.

547. He further decided that it should consist in part, though not entirely, of sterling securities?—I think that at the time to which you refer the Secretary of State decided that it should be held in sterling securities wholly. That was the decision of 1900.

548. Could you give me in outline the reasons for the Secretary of State differing from the recommendation of the Indian Government?—In the correspondence (*see* Appendix V.) the decision is given somewhat briefly, but I think that if you read it, and especially do so in the light of subsequent events, you can see why the Secretary of State differed from the Government of India's view, and why he was right in rejecting that particular scheme which was put before him. You will notice on page 109 that in 1900 a long despatch dated 6th September, No. 302, came home from the Government of India with two long notes by Sir Edward Law and one by Lord Curzon. Generally speaking, omitting certain matters which are not really material to your present question, the proposal regarding the gold standard reserve was that it should be held in gold, and that from time to time the gold from the gold standard reserve should be passed into another reserve, the paper currency reserve, and given to the public in exchange for rupees whenever the public desired it. It is clear, and I think most people would admit it, that if that course had been followed the results might have been very serious—that is to say, the gold would presumably have been dissipated in good times; instead of being held as a reserve for bad times to meet a period of unfavourable trade, the gold would have been passed into the general circulation and would have been of little or no use when a crisis came requiring the use of a very large central stock of gold at very short notice. I imagine that the perception that this scheme would have frustrated the object for which the reserve was established, must have been the reason why the Secretary of State rejected the scheme. Of course, what I say does not refer to subsequent and different schemes for holding the reserve in gold in India; it refers to the particular scheme that was then before the Secretary of State.

549. The Fowler Committee* reported in paragraph 59 in the following words:—"We regard it as "the principal use of a gold reserve that it should be "freely available for foreign remittances whenever "the exchange falls below specie point;" do you accept that view?—No, not entirely I think that that is the most valuable use of a gold reserve, but the practice which has been followed has been to use gold for another purpose, namely, to feed the internal circulation. I think that the Fowler Committee themselves meant that gold held by the Government of India should be used for two distinct, and you may say, conflicting purposes—partly to be dissipated, if I may use that word, in good times so as to provide the population of India with a gold currency; and partly to be hoarded up in a central reserve for bad times so as to be available for meeting a fall in exchange.

550. (*Sir Robert Chalmers.*) Do you think that those considerations in that form were before the Fowler Committee? Did they look quite as far ahead as that?—I am not sure whether they put the two facts together and saw their mutual relation.

551. Their primary purpose was to provide for maintaining the exchange?—By means of a central reserve of gold.

552. That is a question?—That was a purpose they had in mind; and they also had, I think, a different

* C. 9390.

purpose—of establishing somehow or other a gold currency in India.

553. Do you think they went so far as that at that time?—I do think so, because there are various passages in their report—not the passage which the Chairman read—which say that India ought to have the normal accompaniment of a gold standard, namely, a gold currency.

554. (*Chairman.*) Will you direct my attention to any paragraph in that report which indicates that the gold reserve should be used, in your words—and I think I am quoting your words—to feed the internal gold circulation of India in times of good trade?—I do not think that they used the words that the gold reserve should be so used, but I think I should be able to find you passages in which they said that a gold currency was desirable.

555. I am quite certain that you would find that, and to that point we will come later; but do you think that that is synonymous with saying that the gold reserve is to be used for the purposes of supplying the gold currency?—I do not think it is synonymous with saying that, and perhaps I am putting a gloss on what they said in the light of the knowledge we have since acquired, which knowledge shows that the way in which the internal circulation of gold can be kept up is by passing gold out of various reserves held by the Government. That is how it has habitually been done. I think that there was, if it is not too pedantic a phrase to use, a certain latent contradiction in the minds of perhaps some members of the Fowler Committee. I do not think that they perceived entirely how the two objects of keeping a central reserve for one purpose and encouraging the active circulation of gold for another purpose were to some extent in conflict.

556. In the course of their recommendations they said, "We are in favour of making the British sovereign "a legal tender and a current coin in India. We also "consider that, at the same time, the Indian mints "should be thrown open to the unrestricted coinage of "gold on terms and conditions such as govern the "three Australian branches of the Royal Mint."* Has either of these things been done?—Yes. Gold was made a legal standard at the rate of one sovereign for 15 rupees in 1899, almost immediately after the presentation of the report of the Fowler Committee. As regards the opening of the Mint you have, no doubt, the Parliamentary Paper† containing the correspondence and a note‡ that I have submitted mainly for the object of piloting the Commission through that rather long correspondence.

557. Was it not to those means that the Fowler Committee looked for the supply of gold for currency purposes in India?—I do not know whether they failed to perceive—they may have done—that, under the regulations that were in force at the time that they reported, the gold would come into Government treasuries or Government reserves, and would then naturally go out into the general circulation. I think it is better to assume that they did perceive that that draining out of gold into the internal circulation was an inevitable consequence of the arrangements that were in force when they wrote their report. It is extremely difficult, as you will understand, to disentangle what they thought as to how the scheme that they put forward would be actually worked out, and how far they foresaw the way in which events actually did tend in subsequent years.

558. In your opinion, then, is it a necessary consequence of the policy recommended by that Committee that the gold standard reserve should be available for both purposes—both for foreign remittances and for the feeding of the home circulation?—No, I do not say that. The second passage which you read referred, I think, not specifically to the Gold Standard Reserve, but to gold reserves generally. I should imagine what the Fowler Committee had in their mind was that the Gold Standard Reserve should be the one which was to be hoarded up by the Government as a Central Reserve for times of difficulty, but that other gold reserves should be used as the paper currency reserve has actually been used for the other purposes mentioned.

559. To hold part of the Reserve in securities was, I take it, a departure from the strict recommendation of the Fowler Committee*?—I should not accept that view, if I may venture to differ. The matter has given rise to so much controversy that I should like to put forward my own view somewhat in detail. If you read not only the Report of the Fowler Committee but the many other papers that are before you regarding the Gold Standard Reserve, you will see that continually gold is used in two quite different senses—it is unfortunate that it should be used ambiguously, but there is no doubt that it is so used. One meaning, of course, is metallic gold; the other is sterling assets—including securities. Before I go on to say what I think the Fowler Committee meant, I would like to draw attention to one or two passages where gold is obviously used in the wider sense. In paragraph 70 of the Fowler Report* they say that the Government of India should "restrict the growth of their gold obligations"; it is quite clear that they did not mean obligations which were payable in metallic gold. What they meant was obligations incurred in the way you are familiar with, by issuing stock and taking cheques in payment for it, the interest on which is paid merely by dividend warrants in the paying of which not a single sovereign changes hands. That is one passage I would refer to as showing the wider use of the term gold, as meaning sterling assets including securities. Then I notice, as illustrating the general usage in this matter, a letter from the Government of India which is printed in the correspondence I have handed in (No. 89, 1st April 1909, Appendix V., page 168). In paragraph 4 the Government of India submit a calculation of the sterling assets that they lost during the exchange crisis of 1907–8. The letter says: "During the period from November 1907, when "exchange first fell substantially below 1*s.* 4*d.*, until "the end of January last we lost 15 millions of our "gold," and then they give it under three heads—Gold Standard Reserve, Currency Gold in England, and Government Gold held in India. The two latter items call for no comment, as they were actually metallic gold. In regard to the first item, Gold Standard Reserve, the loss of gold there was really through the selling of certain securities and the using of the proceeds in order to pay certain bills. I know that in the whole of these transactions, which involved the payment, the Government of India say, of rather less than 7 millions but really of more than 8 millions, not a single sovereign changed hands. It was entirely what I should call a sterling transaction, but not a gold transaction. I draw your attention to that merely to illustrate that according to general usage gold has a double meaning—first metallic gold, and second sterling assets, including securities, cheques and so on. That is the only reason why I mention this point, but it is an important one. If you accept these two meanings of gold, then the question is, did the Fowler Committee intend the narrower meaning of metallic gold to be put on their statement? One would naturally turn either to any record of their meaning or to anything that could be gathered from the opinions expressed by members of the Committee subsequently. As regards any record of their meaning I think you will find that there is nothing on the subject in their Report or in their evidence, because the Committee was considering quite different questions—whether the Mints should be reopened and whether the rate of exchange should be 1*s.* 3*d.* or 1*s.* 4*d.*; and this question of the formation of a Gold Standard Reserve was at that time an extremely unimportant one, and they gave very little time to it. My recollection, since I had some little share in drafting the Report, is that the instructions that were given in order that the Report might be drafted were that these profits of coinage were to be held in a sterling form and not in a rupee form, so that in case of a fall in exchange they could be realised in sterling and used in London. I may say that some time ago I asked Sir Robert

* C. 9390, paragraph 54.

† H.C. 495 of 1913. ‡ Appendix VI., pp. 212–6.

* C. 9390.

Chalmers, who was the Secretary of the Committee and whom I helped in that matter, and his recollection confirmed mine. That I think is all that can be said about what the Committee as a whole did; but I should like to draw your attention to certain things said and done by individual members of the Fowler Committee since the Committee itself was dissolved. In 1900 the decision was taken by the Secretary of State to hold this Reserve in securities, not in metallic gold. At that time his finance committee, on whose advice he largely acted, included Mr. Le Marchant, who was one member of the Fowler Committee, and Sir Charles Crosthwaite, who was another member. It is really inconceivable that if they had meant metallic gold in 1899 they should in 1900 have forgotten that, and have submitted to the Secretary of State a despatch in which, when he adopted it, he said to the Government of India the Reserve was obviously one which should be held in securities. That gives the opinions of two very leading members of the Fowler Committee, and I can give you the opinion of a third member who is of great eminence in these matters—Sir David Barbour, who recently published a book called the Standard of Value,* which I dare say you have seen, dealing very largely with the history of Indian currency. Although I have not brought with me a passage to quote, you can see if you read that book that over and over again he refers with approval to what has been done in the matter of the Gold Standard Reserve as carrying out properly the recommendations of the Fowler Committee. I have given the opinions of those three members. As regards the others, I have not had any opportunity of acquainting myself with their views on this question, which has been raised comparatively recently.

560. In the despatch from the Secretary of State to the Government of India, dated 13th December 1900, in Appendix V., page 126, it is arranged that the profit on the coinage of silver should be at once remitted to London and held in London by the Secretary of State; can you tell me why the India Office rejected the suggestion of the Government of India that the gold should be held in India?—I think that in answering the previous question I summarised what I understood to be the effect of Sir Edward Law's scheme, and showed that I thought it would have frustrated the object with which this gold standard reserve was created and was to be held. I assume that that was what was in the mind of the Secretary of State when he rejected that scheme.

561. I think you have said that it was an objection, so to speak, personal to that scheme?—Yes.

562. Rather than to possibly holding gold in India under different circumstances?—Yes.

563. The system of remitting gold to England and investing it entirely in Consols was pursued from 1901 to 1903, was it not?—Yes, but of course it was not remitting gold, if I may correct you there. That, by the way, if you do not mind my saying so, is a very good illustration of how gold is used in a wider sense than that of metallic gold. These remittances, I think, were in some cases effected by the transmission of actual sovereigns, but the more usual course is, and has been, to bring the money home by the sale of bills. The investment in Consols, I think, was the only form of investment until 1903. In Statement C, which you will find at the end of Appendix III., pp. 99–102, you will see that in 1901–2 Consols were bought, in 1902–3 there was a further purchase of Consols, and also in 1903–4, but that in 1903–4 a departure of some importance was made when National War Loan stock, which, as you remember, was a terminable stock, was bought instead of permanent securities.

564. At whose instigation was that change made?—My recollection is that the general change of policy, that is to say, the decision to put more money into terminable securities and less into permanent securities was made in a private and unofficial way by Sir Edward Law. He used often to write to me on these subjects, and he made the suggestion, and I put it before the Secretary of State. I cannot tell you the exact date of his letter, but it was about that time, I think.

565. Do you happen to know whether Sir Edward Law had changed his opinion on the question of holding gold since those days? I have seen it stated that he did?—My knowledge is largely based on this: When Sir Edward Law was financial member his financial secretary was Mr. Finlay, whose name I dare say you know. Mr. Finlay was telling me some time ago that Sir Edward Law was quite content with the idea of holding money in securities, and he did not think there was any disadvantage in the putting aside of his original proposal to hold it in gold. That is merely information which I got in conversation, so it is not in the strict sense of the word official, but I think you may take it that it is correct.

566. To the best of your belief that was his opinion up to the end?—I believe so. I often discussed these matters with him because I knew him very well.

567. One of your tables, I think, shows the way in which you invested the gold standard reserve?—Yes, Statement C. of Appendix III. (pp. 99–102).

568. Will you tell me briefly what were the proportions between the different constituent parts?—It is a little difficult to condense these statements, which go over many years, but I think I can best answer your question by saying that until 1906 the whole of the gold standard reserve was normally held in sterling securities in London. You will see in Statement A. of Appendix III. (page 97) that there were temporary holdings of gold in India; but that gold was held in India pending remittance to London. In 1906 the policy of holding a portion in silver was adopted, and finally of holding it in coined rupees. There is a long history attached to that which no doubt you will go into later.

569. The policy was adopted in 1906, you say, of holding part of it in rupees?—Yes, first in silver, half-coined rupees, and then in coined rupees.

570. And that portion of the reserve was held in India?—Yes. The next change, I think, was when it was decided in 1909 to hold about a million in what is called in Statement A. of Appendix III. cash at short notice, that is to say, money lent for a few weeks at a time on securities so as to be able to be called in very rapidly. The final change that has been made is that in 1912 the Secretary of State decided, for reasons which are given in the papers before you, to accumulate a certain amount in gold in London, and that accumulation is going on now. We have reached about 1¾ millions, and the present intention is to allow it to rise to five millions. I have not given you the nature of the securities; I do not think at this moment you ask for that information.

571. No; that is sufficient for the present. In paragraph 3 of the letter from the Government of India of the 26th April 1906 (*see* Appendix V., page 137) it is stated, "The depletion of our balances in India also "embarrassed the Secretary of State in England, as, "for example, when we had . . . . . to press "you to transfer gold from Treasury to currency, "though advised that the withdrawal of gold from "the reserves of the Bank of England would be "inopportune." That appears to be a suggestion that the interests of India at that moment had to be sacrificed to the interests of the London money market; have you anything to say about that?—I am very grateful to you for asking that question, and since it is a matter on which much has been said, perhaps you would allow me to answer it in detail. What happened on that occasion is set forth in a series of telegrams which you will find in Appendix V. (pp. 136–7), of which I should like to give you a summary—they are very brief. On the 15th December 1905 the Government of India telegraphed to the Secretary of State, asking him to transfer half a million sterling to his currency chest; that is the operation which is commonly known as earmarking gold. The Secretary of State said that what was necessary could be done by transferring the equivalent amount of silver which he had bought for the Government of India, and was about to ship to them, but he said, if you require more than this half-million of silver I will transfer forthwith half a million in gold as well. The Government of India pressed that gold also should be transferred in accordance with

* Published by Macmillan & Co., 1912.

the Secretary of State's offer. They made their final request after some little consideration on the 19th December, and said that they were sure that the transfer of gold was necessary. On the same day on which the Secretary of State received that request he telegraphed out, "To-morrow I will set aside half a million of gold as you wish." Then on the 20th December he telegraphed out that he had done so. So that there was in no sense—and this is why I was glad that you asked the question—a setting aside of the convenience or wishes of the Government of India in the matter. As soon as the Government of India said that they could not conveniently do without this transfer of gold, the Secretary of State transferred it. Subsequently, in the course of the same busy season, he set aside nearly four millions of gold; so that what was required to meet the wishes of the Government of India was amply done.

572. Can you tell me whether in the first instance—I am not quite clear, listening to what you have said, whether you have already answered this—the Secretary of State did in fact object on the ground that the transference of gold from the reserves of the Bank of England would be inopportune at the moment?—In the course of the correspondence which I briefly summarised there appear these two sentences which I suppose I had better read, because they throw light on one another: "I am willing to make the "transfer, as requested in your telegram of yesterday, "at once if this is the only possible course. But as it "is undesirable just now to withdraw gold from the "Bank of England reserves, it would be better to "postpone, or if possible to avoid, such transfer." That was the reason why for a short time he hesitated, but when he found that the interests of India as understood by the Government of India, required that the transfer should be made, then without any further hesitation he made it.

573. And even the expression of that hesitation was accompanied by an assurance that he would do it if the Government of India pressed him to do it?—Quite so; and he gave his reason merely because the Secretary of State always wishes to be very candid with the Government of India, and to let them know what is in his mind.

574. If you look at the same letter (26th April 1906, Appendix V., page 137), paragraph 9, you will see the Indian Government states: "Our currency system is "unavoidably artificial, and the profits arising there-"from should be primarily utilised, not in breeding "interest, but in protecting it against the risks to which "an artificial system is liable." Would you admit that that is a fair criticism of what had then taken place?—I do not think that that professed to be a criticism of what I was just describing. That is a statement which is made in support of the proposition that a part of the gold standard reserve should be held in rupees so as to avoid the risk of the Government of India being caught short of rupees. It is only to that point that that remark is directed.

575. But it perhaps has a wider application than it was given in that particular paragraph. If it is sound at all, does it not apply beyond the special purpose for which the Indian Government were then using it?—Certainly. I do not think, if I may say so, that it applies to that particular transaction of the transfer of gold on which you were questioning me. I think that it is rather a wider and more forcible statement than personally I should make if I were asked to describe the Indian currency system, because I think, and these papers I hope will convince you, that the Indian currency system is as far as possible managed on automatic lines; that is to say, it is managed as little as possible and left to itself so far as may be. There is a certain artificiality in the sense that from time to time the Government has to take certain action, but to describe it as an artificial system in the sense that it is very much more artificial than, say, the English currency system, is, I think, not very completely justified. There is artificiality, of course, in the English system—great artificiality.

576. Does not the force of the criticism lie in the suggestion that this gold standard reserve should be maintained in bullion?—It can be used as supporting that view, but it was originally used as supporting the view that it should be maintained in silver bullion. I do not think that the force of the argument depends—and perhaps I misunderstood you here—on the artificiality of the system. As the Government of India wrote it, they implied that there was a connection between the artificiality of the system and the maintenance of the reserve in silver bullion; where I had difficulty in following it was in seeing that particular connection.

577. Is it your view that it is not necessary to maintain any large proportion of the gold standard reserve in gold?—I would qualify that. I do not think that it is necessary to maintain a large proportion in gold provided that the portion that is in other forms is in forms in which it can be easily realised. If one had the choice between gold and securities of which the realisation might be difficult in times of stress, then I should say let it all be in gold.

578. In fact, if I rightly understood you, you would confine the holdings of the reserve either to gold or to short-dated securities?—I should like to see it in that form. If there were any use in a reserve of 20 millions with 2 millions in Consols, I think it would be quite safe to have that kind of proportion; but I think it would not be safe in present circumstances to have a very large proportion of reserve in Consols. When I say Consols I mean similar securities such as Local Loans stock, Irish stock and so on.

579. That is to say, the highest class of securities with no fixed date of redemption?—That is so, or with no near date of redemption.

580. There is a question arising out of the correspondence of 1906 as to a temporary loan from the gold standard reserve. It seems to be rather an intricate transaction. Can you make clear to me what took place and what were the reasons for it?—I do not think that the transaction itself is very intricate. From time to time the Government of India has to make payments, mostly to meet Council bills or transfers sold by the Secretary of State beyond the amount that they hold in their Treasury balances, or that they can conveniently spare from their Treasury balances. In such times the usual resource is that the Secretary of State earmarks gold here, that is to say, transfers it to the paper currency reserve, thus liberating so much money from the paper currency reserve in India. That is the second method of meeting bills, payments from the Treasury balances being the first. There are times when even the second method cannot be conveniently used, because the London money market might be disturbed to an extent which would affect Indian interests. I mean, if the Secretary of State were issuing a loan or renewing debentures at that time he might say, It is a very serious thing to spoil my loan market by earmarking two millions or three millions of gold. In those circumstances he would ask the Government of India to make their payments to meet his bills, or for any other purpose, from the Indian branch of the gold standard reserve, taking the money as a loan. That is the practice which was followed for some years. The better course, I think, is that when the Government of India take money from the Indian branch of the gold standard reserve the Secretary of State should temporarily add a corresponding sum to the English branch so as not to deplete the reserve in any way. You will see in the correspondence in Appendix V. that after seven years' pleadings with the Government of India the Secretary of State has induced them to accept that view. So that loans pure and simple ought not to take place in future; what ought to happen is that there is so much added to the London branch when the Indian branch is depleted.

581. Am I right in thinking that the effect of the old system was, in the first place, to enable the Government of India to issue rupees to the public to the amount of the loan over and above the amount they would otherwise have been able to issue?—Yes, and that also is the effect of the new system. It adds an element of elasticity to the circulation in India.

582. The results are not affected by the change of procedure?—No.

583. In a telegram dated the 14th February 1907 in Appendix V. (page 151) the Secretary of State explains that his balances are earning 4½ per cent.; would the India Office consider it a good reason for not repaying a loan in these days, if such a loan were made, that the sum lent was earning a high interest?—I think I can say with confidence that they would not consider it now a good reason; but I should like to say this, that at the period to which this telegram of 14th February 1907 refers the loan was actually repaid and gold was set aside. The Secretary of State's indication of his intention or his hankering after postponement of the repayment was not carried into effect.

584. In 1907 a report was submitted from a Committee on Indian Railway Finance,* and as a result of that report a million or more, I think, of the money belonging to the gold standard reserve was applied to the purposes of railway extension; am I right in that statement of fact?—Certainly, except that it was actually used not for railway extension but for the purchase of rolling stock; but that is an immaterial point.

585. What were the reasons for adopting that course?—At that time the need for expenditure on rolling stock was very urgent. There was complete unanimity between the Secretary of State, the Government of India, and the mercantile community in India that a million pounds' worth of rolling stock ought to be got as soon as possible. It was not considered that it could be bought from the balances of the Secretary of State, and it was also not considered practicable to raise the money by means of a loan. India stock could not be issued because an issue had recently been made, and the objections to issuing India bills were held to be very strong. The general opinion at that time was that the exchange was in a very strong position, that the resources available for its support were quite adequate for their purpose—all of which is set forth in the Interim Report of this Committee submitted in June 1907 (*see* Appendix V., pp. 156–7)—and that it would be on balance very much to the advantage of India to reduce the rate at which the gold standard reserve was being accumulated and to use this million of money for the purchase of rolling stock. I may say that I was a member of the Committee which made that recommendation, and we considered it, as you will understand, with very great care. We pointed out, as you will see here, how strong were the resources that were available for the support of exchange; they amounted to more than 23 millions and they were steadily growing. We came to the conclusion that there was enough to relieve us from any apprehension of a fall in exchange.

586. The Secretary of State, I think, went rather beyond your recommendation at the moment, and decided to do this not merely as a single exceptional transaction, but regularly to use half the profits on coinage for railway expansion?—Yes.

587. It would appear from the papers that you have submitted that the opinion of the Government of India was adverse to that course?—Yes, on the whole the Government of India were adverse, but their opposition has, I think, often been exaggerated. I should like to draw your attention to a letter in Appendix V. from the Government of India of the 8th August 1907 (page 160). I wish to draw your attention to two points. The first is in paragraph 3 of that despatch, in which they say, "We accept your decision, although some of us entertain doubts as to its expediency." It was not a unanimous Government of India that was opposed to the action taken by the Secretary of State. The other point to which I should like to draw attention is that, as shown in paragraph 2 of that despatch, the Government of India by a coincidence were, at the time that this Committee reported, considering and indeed accepting the advisability of limiting the growth of the gold standard reserve. They had actually, as you will remember, in the previous year diverted a considerable sum from the gold resources or the sterling resources so as to build up the Indian branch, and then they were proposing that the sterling investments should continue only until they reached 20 millions, and that after that figure had been reached the investment of the profits on new coinage should come to an end, and that then the profits, being diverted from the gold standard reserve proper, should be used for railways. So that the minds of the Secretary of State and his Council and of the Government of India were moving in the same direction.

588. So that you would say there was no difference of principle between them, the point on which they differed being the exact time at which the operation should begin?—Yes. Of course they would have said, and it is fair to them to mention it, that the difference of detail was to them a very important one.

589. The transaction bears a certain resemblance to one we sometimes see in this country, where the Chancellor of the Exchequer, being in need of some sum for immediate objects, finds admirable reasons for reducing the Sinking Fund?—Quite so, and I think it ought to be criticised on much the same ground. Everyone is familiar with the phrase that is so often thrown at the Chancellor of the Exchequer, that he has raided the Sinking Fund. It is implied without further consideration, that he has done an improper act, whereas I think those who follow imperial finance more carefully know that sometimes it may be an unwise thing, and sometimes it may be a very wise thing, to raid the Sinking Fund in a particular year.

590. Would you agree in regard to this Indian transaction that the onus of proof very definitely lies with those who wished to divert?—Yes. The justification that our Committee put forward in support of its much smaller proposal was, first, the admitted urgency of the additional rolling stock; then the difficulty of providing it by other means; and, thirdly, the position of safety that had been reached in respect of the safeguarding of the exchange.

591. Do you think that your Committee or the Secretary of State would have come to exactly the same conclusions if they could have foreseen the stringency of the crisis which took place, I think, about six months later?—I think they would have. It is very difficult to dogmatise, and you will not expect me to dogmatise in answer to such a question but what actually happened six months later was that there was an extraordinarily severe reversal of the usual favourable balance of trade, and that, without any difficulty worth mentioning, the tendency to a fall in exchange which arose from that reversal was met, and amply met, and exchange was, to all intents and purposes, maintained. It is true that, owing to the fluctuations of circumstances, the exchange did fall below the gold exporting point for some days, so that to that extent exchange, in the strictest sense of the word, was not maintained; but I think it would generally be held that the business of maintaining the exchange was successfully performed, and that the Secretary of State was by no means at the end of his resources for that purpose.

592. I was led to ask you that question because I noticed that in the Secretary of State's telegram of the 2nd July 1907, which is given in Appendix V. (pp. 158–9) he states, "The danger, which you allege, of a fall in the "rate of exchange, I regard as illusory, having regard "to the present conditions of trade"?—I noticed that telegram, and I looked up the records relating to it. The telegram might easily be understood as meaning that the Secretary of State committed himself to the view that there was no danger of the occurrence of unfavourable trade conditions such as in the absence of special support would lead to a fall in exchange. If he had said that, his remark would have been very risky and indeed rather ridiculous. I find on looking at the papers that what he intended to convey was this—that the existing supports for exchange were adequate, and that the danger that they would be inadequate if one million pounds were spent on the railways was illusory. That view which the Secretary of State meant to convey was justified by the events of the crisis which occurred six months later.

* Cd. 4111, and Appendix V., page 156 (Interim Report).

593. When was the decision to use half the profits on coinage for railway purposes withdrawn?—It had undergone a process of gradual modification.

594. It has finally ceased now, has it not?—It has ceased until the 25 millions shall be accumulated in the London branch of the gold standard reserve.

595. What was the date on which it was decided to withdraw no more until that figure of 25 millions should have been reached?—That was a recent decision of 1912. You will find it in a despatch of the Secretary of State dated the 28th June 1912 in Appendix V. It is the last sentence of paragraph 5 on page 202.

596. Up to that date about what amount had been withdrawn?—About 1,100,000*l.* The only withdrawal that took place was the one in 1907, which occurred immediately on the report of that committee.

597. You have given us in a paper which you have circulated, an account of the financial crisis of 1907–8 (*see* Appendix III.); I do not want to ask you to go over in evidence all that you have written, but I will just ask whether there is anything you would like to say supplementary to what you have written, either as regards the history of the crisis or the measures adopted to meet it?—I think it is given so fully in my statements and in the correspondence in Appendix V. that there is very little that I need say. I do not know if at this point I should draw attention—I should like to do so at some stage—to the exceptional severity of the crisis. I think that is a point which has been almost universally overlooked, except in the India Office, and I attach myself the very greatest importance to its being properly understood. In a small paper of mine, headed Supplementary Statements to Accompany Memorandum on Gold Standard Reserve (*see* Appendix IV.), I give certain particulars (in Statement, page 107) regarding the balance of trade in calendar years. I did so in financial years because that is a conventional way of setting forth these figures, but it is a very misleading way, because very often you have a financial year the first half of which is very good and the second half of which is very bad, but the badness of the second half is obscured by the goodness of the first half. So that, in order to get to the real nature of the crisis in 1907–8, in Statement 3 I have amplified some figures, which are already in the correspondence, for a smaller number of years, taking the period from the Autumn of 1907 to the Autumn of 1908, which was really the period over which this crisis extended, and comparing the balance of trade for that period with the balance for the corresponding period of each year from 1892–3 to 1911–2. I would draw your attention to this, that although in these years, as indicated by the asterisk in the last column of the table, there were many famines, there was no year except 1907–8 in which there was not a very considerable favourable balance of trade. If you eliminate 1907–8, you find that the worst year was 1896–7, when there was a favourable balance of nearly 13 millions, and that the other years show much larger favourable balances. In this solitary year, 1907–8, you have an unfavourable balance of 1,190,000*l.* which is, to some extent, due to the fact that silver was very cheap at that time, and India imported very large quantities of cheap silver. I think that that really is one very important fact relating to the history of that period which is not brought out in the correspondence, or in my continuous memorandum, so I should like to draw your attention to it.

598. Will you state the inference you draw from it?—I draw one inference only, as shown in various passages in the memorandum, that when one is calculating how large the gold standard reserve ought to be in order to provide reasonable security for maintaining exchange at any future period of adverse trade, one can, on the basis of these figures, take 1907–8 as being as bad a period as it is necessary to provide for.

599. Was 1907–8 a famine year?—It was to some extent, but it was not as bad a famine year as many of the others which I have marked with asterisks. I daresay you remember that at the end of 1907 there occurred what was called the American crisis, when a panic fell on many depositors in America and they took their money in gold—real metallic gold this time—and hoarded it.

600. There was not any war in India in that year?—No, it was a time of peace. It was a time of famine; not very bad or extensive famine; but above all things—and this was the important fact—it was a time of the most profound industrial depression all over the world, and it was also a time when the Bank of England rate was very high.

601. Suppose that that general state of affairs were to coincide at some future time with a really severe famine in India, or even with such a year as we have seen in India occasionally in the past, when there have been both bad famine and war, would you still say that 1907–8 is the measure of the utmost that you have to guard against?—Of course no one would say that there could not possibly be a worse year, but in these matters I think it is generally agreed that provision ought to be made for what, on the basis of experience and of any corrections of experience that prudence suggests, may be considered to be the utmost limit of danger. I ought to mention to you that in these years which are shown in my table there have been years in which there have been simultaneously famine and war. I do not mean war on a very great scale, but very important frontier campaigns. I think you will find if you look at Statement 2 of Appendix IV. on page 107 that famine and the second Afghan war sychronised; I think in 1878 the Afghan war had begun, and that was certainly a famine year.

602. And it was a bad year, of course, as shown by your figures?—Yes.

603. I merely put to you that no doubt the American crisis and its results were extremely severe, but that the local Indian crisis was not as severe as many that had been known in that country. What I was suggesting was that to take the standard of that year, the standard fixed as what was necessary for that year, as the standard for all years, might be insufficient if a grave famine in India coincided with a similar world crisis?—As a general proposition, of course. I could not possibly dispute that, but I would dispute that if, as business men do, one allows for such difficulties as are likely to occur and makes a fairly liberal calculation of the extent to which past experience suggests difficulties, then one has gone as far as prudence suggests, more especially because, supposing that there was an under-calculation of real difficulties, but that one had 25 millions as one's gold standard reserve intact at the beginning of a particular exchange crisis, no one doubts that the using up of that very large sum of money, together with the gold in the paper currency reserve, would very seriously stem the crisis, and that a great deal would have been done by way of contracting the currency and by other methods to reduce the residuum of the crisis still to be faced; and at a time like that one would no doubt be able to borrow, if it were necessary, to make more funds available. Since this kind of calamity might happen perhaps once in 50 years, or once in 100 years, it is important not to immobilise a large sum of money for so long a period in order to meet so improbable a contingency.

604. At the same time, if you profess to create a reserve, you would agree, would you not, that it is very desirable that it should be sufficient for the worst contingency that you may reasonably allow for having to meet?—Yes; that is a formula to which I should willingly subscribe, and I should supplement it by saying that these figures in Statement 3 on page 108 are an excellent guide as to what is the extent of that contingency.

605. Speaking generally of the correspondence between the Secretary of State and the Government of India, am I right in thinking that in the earlier years the Secretary of State overruled the Government of India perhaps in the most important points on which the two differed, but that in the last two years or so the correspondence discloses a compromise in which the Secretary of State has given way, to some extent, on such questions as holding a portion of the reserve in London in a more liquid form, and the Government of India has waived its wish to have more of

the reserve located in India itself?—Yes; I think there has been an approach towards unanimity in the matter.

606. To go to another question, I want to ask you a little about the coinage of rupees; how is it determined when rupees are to be coined, and to what extent?—That, of course, is set forth at great length in the correspondence, but it has not been summarised in any memorandum. Perhaps I might build up my remarks round a certain nucleus, namely, the memorandum which was sent out by the India Office in 1910. (*See* Enclosure to Despatch to the Government of India No. 25, of 18th February 1910, in Appendix V., pp. 188–94.)

607. I do not so much want the whole history of what has taken place as the result?—The result, as you will see from that memorandum, is that we have now adopted this standard—that at the beginning of the busy season which we take to be the 1st October, we ought to have in the paper currency reserve and in the Indian branch of the gold standard reserve combined 24 crores of rupees, that is to say, the equivalent of 16 millions sterling, and that that should be allowed to decline gradually to 17½ crores of rupees by the 31st March, which is the conventional end of the busy season—of course, it is not a very exact date, but it serves usefully; and that in order to prevent the stock falling below 17½ crores by the 31st March, new coinage ought to be undertaken during the busy season to the extent that is necessary, and then if the year ends with 17½ crores, that is to say, if that is the amount on the 31st March, coinage ought to be gradually undertaken during the summer to the extent that seems likely to be necessary to fill up the reserves again to the higher figure, the 24 crores. There is always some uncertainty, because in the summer sometimes rupees flow out from the reserves into the general circulation and sometimes they flow back again.

608. Are the variations in the public demand very great from year to year?—They are enormous. I have some figures here that I got out for another purpose, and I think they are very surprising. I do not think you need the figures year by year, but I will just take the two extreme figures. In 1907 the public demand for rupees, that is to say, the absorption of rupees, was 8,120,000*l.* in the calendar year; and in the year 1908 there flowed back from circulation into the reserves, 12,300,000*l.* The difference between those two extreme years was a difference between, as we put it in our statements, + 8,000,000*l.* and — 12,300,000*l.*, that is to say, a difference of over 20 million sterling. That you will easily understand is a very important fact in all the management of the Indian currency, that we are liable to these vast fluctuations in demand.

609. By what considerations are the Government influenced in the purchase of silver for rupee coinage?—Only such considerations as flow from that empirical rule that I mentioned to you. We try to have our 24 crores at the beginning of the busy season to prevent our stock from falling below 17½ crores at the end of it, and then if it does fall as low as 17½ crores, to build it up again to 24 crores by the beginning of the next busy season. I ought to have mentioned to you that this is a very recent rule, and, if I may say so as a member of the India Office, it has been very useful, because it prevents purchases being made either too sparingly or too abundantly, and both extremes have been reached in the past.

610. It has led, on the other hand, has it not, to purchases of silver not being made at all for some time?—It has.

611. And then to very large purchases being made in a very brief time?—It has not led to larger purchases being made in a brief time than was customary under the old system. Both under the existing rule and under the previous system large purchases were made in a very short time.

612. It must necessarily be the case, must it not, if you wait to purchase until your needs are very great, that the market will have knowledge of those needs, and that there would be a natural legitimate tendency on the part of the market to use that knowledge against you?—We try not to let ourselves be caught very short of rupees. Our minimum of 17½ crores is a very ample minimum, and supposing that at some time we had to let this stock go down to 15 or even 12 crores, the system would still be workable.

613. Have you ever considered whether it would be possible to buy steadily in small quantities instead of waiting until you had a large demand?—Yes, we have often considered that, and I think the answer to it in its briefest form is in those figures which I gave you—the figures of very large fluctuations. I have the figures for various years showing the amount of rupees held. In the year 1909 the largest amount held at one time was about 49 crores of rupees, and the lowest was about 39 crores of rupees. Both of those figures were very much above the estimated maximum of our requirements. Supposing that when we have held those very large sums we had bought silver, say, at the rate of two millions a year or at any figure that had been fixed as the steady annual purchase, that would have been open to two objections, first, it would have been in itself rather foolish to buy more of an article of which you already had far more than you needed; and then there is a much more serious objection. Supposing one had spent two millions on buying this unnecessary silver, and then just after that there had been a deficient monsoon or an American crisis and the exchange had tended to fall, it would have been most unfortunate that two millions of sterling resources, which in happier circumstances could have been used to meet the fall in exchange, should have been rendered useless for that purpose by being locked up in silver in India, because in such circumstances the money would have been locked up and one could not have turned it into the sterling resources and got it back and used it to support the exchange.

614. The Committee of 1898 recommended among other things that the Indian Mints should be thrown open to the unrestricted coinage of gold; will you tell us what has been done in respect of that recommendation?—The full information, as no doubt you are aware, is given in a paper which was presented to Parliament in 1913,* and I have tried to summarise it in a memorandum headed Note on Proposals for the Coinage of Gold in India (*see* Appendix VI., page 212). I think I could very briefly give you the main facts. From 1899 to 1902 we were in continual correspondence with the Treasury and with the Government of India, with a view to having a branch of the Royal Mint established in India. There were a good many technical difficulties, but they were not very serious and they were all got over in course of time. I think that possibly a Mint would have been established in 1902, only the Government of India wrote to the Secretary of State a very important letter withdrawing the proposal.

615. Which letter is that?—You will find it on page 56 of the Parliamentary Paper,* and it is dated 25 December 1902. They refer to certain criticisms, and then they go on "We have now ascertained that "the chief mining companies have made arrangements "with which they are at present satisfied for the regular "sale of their gold in London, and we are doubtful "whether any terms that we could offer with a due "regard to our own interests would induce them at an "early date to alter those arrangements and to bring "their gold to the Mint in Bombay. In the absence "therefore of an assurance that a steady and permanent "supply of gold of local production would be available "for coinage in this country we prefer to drop the "scheme for the present, leaving its revival to the "existence or the revival of conditions which cannot at "present be foreseen." In view of that, the Secretary of State had no alternative. He had to drop the proposal, and it remained in abeyance until it was raised in the first place in a debate in the Legislative Council in India in 1911. There was a further discussion in same Council in 1912, and as the outcome of that the Government of India revived the proposal in a letter which is printed on pages 57–63 of the Parliamentary Paper.* They proposed that a Mint should be set up in Bombay on a very small scale, and they do not seem to have very much considered the question of

* H.C. 495 of 1913.

the arrangements that were necessary under the British Coinage Act of 1870, that is to say, to bring an Indian branch mint into proper relation with the British Government and the Master of the Mint in this country. We found when we wrote to the Treasury that the very modest, inexpensive scheme of the Government of India was not really practicable. Their idea was to set aside a portion of the Bombay Mint, a room, probably, to have a refinery and to coin sovereigns, and to let the staff of the Bombay Mint do the work when they were not coining rupees; but the Treasury insisted that whatever mint was used for the coinage of sovereigns must be under the control of the Treasury.

616. (*Sir Robert Chalmers.*) That was under the provisions of the Coinage Act of 1870, was it not?—I think that is so. I fancy the Treasury could have agreed to a scheme under which each officer of the Bombay Mint would have had two masters, namely, the Government of India for rupee purposes and the Imperial Government for sovereign purposes; but the Treasury, for reasons which I quite appreciate, did not accept that view.

617. (*Chairman.*) Would the Treasury objections apply equally if an Indian mint were to coint a special gold piece, not sovereigns?—No; the Treasury would then have no jurisdiction. It was for that, among other reasons, that the Secretary of State suggested as a way out of the difficulty that a special Indian gold piece might be coined instead of the sovereign.

618. Suppose a gold piece were coined for India or sovereigns were freely coined there, can you give me any indication to what extent, in your opinion, these gold coins would be likely to remain in circulation?—It is very difficult to say how far the sovereigns now in India, which amount to an enormous total, are in circulation, and how far they are used for other purposes or have been melted; but there are some figures on the subject, and I dare say many of them are familiar to you. There is one table in paragraph 8 of Appendix VI. on page 214 which gives some information which I do not think has ever before been published in the form in which I have given it. I should like to draw your attention, first of all, to the amount of sovereigns issued to the public. You will see that the amounts have been very large in recent years; in 1912–3, for instance, they went up to 21,815,000*l.* The figures, which have not been published, are these receipts from the general public, namely, the second line in the table, nearly 7,000,000*l.* in 1911–2 and more than 11,000,000*l.* in 1902–3. That shows that there is a very considerable flow of sovereigns both out of the treasuries and reserves into the possession of the public and also in the other direction. These figures, therefore, indicate a very considerable use of sovereigns as currency. But it is quite possible that the large amount that comes into the Government treasuries and reserves from the public may indicate that many of the sovereigns which go out to be used for currency have very short lives—I mean the Government might pay out a sovereign one day, and then the same sovereign might come back again the next day. I do not say that that is so; that is merely one of the illustrations of the difficulty of arriving at any conclusion on such a matter.

619. I should now like to ask you whether you would agree with the opinion expressed by the Fowler Committee that India should aim at the possession of what they call the normal accompaniment of a gold standard, namely, a gold currency?—My own opinion—I do not say that any weight should be attached to it—is that on the whole it is a good thing that India should have a gold currency. I think it is far less important than that she should have a great central stock of gold to be used for the support of exchange; I think that is her greatest need in respect of gold, but her second need, I think, is that the people should have gold if they want gold. It is a curious fact that many people who have to use money in the course of their business have an extraordinary affection for the use of gold money, and I think that people in India, like people elsewhere, if they want gold money and can pay for it in produce or can acquire it honestly should have the opportunity of acquiring it. Indeed it is inevitable; you cannot prevent people from having gold if they want it.

620. Is there any indication, in your opinion, that they have difficulty in getting it now if they want it?—I should think there is very little difficulty when one considers the vast amounts that have been paid out into circulation in India, and the very large amount, as mentioned in one of my papers, that is still held on offer for anyone who wishes to have it. I should think it ought to be quite easy for anyone in India who desires gold to get it. Sometimes friends of mine who have been in India grumble and say beyond a certain amount they find it a little difficult to get gold, but then I fancy that they must be referring either to very large amounts or else to periods when from one reason or another the Government stock has sunk rather below the normal level.

621. If they were referring to very large amounts, that would be an experience which they might easily have under certain conditions in Europe, would it not?—Quite so. I remember one friend of mine told me that the ruler of a native state in the West of India with whom he was well acquainted sent down to Bombay to change many lakhs of rupees—a lakh of rupees is roughly 7,000*l.*—into sovereigns, and the messenger whom he sent could only bring back sovereigns on that day for half the amount, and he had to wait for the other half. When you are dealing with several lakhs of rupees it is not a very strange thing that you do have to wait for a little time.

622. We have had referred to us similar questions in regard to the paper currency reserve. I understand that one of your colleagues in the office is going to give us evidence on that point?—Yes; Mr. Newmarch has submitted a memorandum* which contains, I think, very full information. If there is any point on the subject on which you would like to question me, of course I would answer to the best of my ability; I have been familiar with it for a good many years.

623. I think I need not trouble you under the circumstances at present, but possibly other members of the Commission may wish to ask you some questions. Practically the system which is established in India is what is known as a gold exchange system, is it not?—It is more than that, I should say. I think the ideal gold exchange system would be a system under which there were central stocks of gold under the management either of the Government or of a very responsible central bank with little or no gold in circulation. The Indian system departs from that in that it tends to encourage, and has, I think, effectively encouraged, a certain circulation of gold, though, as I explained, I cannot say to what amount. It is on its way towards becoming a combination, I should say, of a gold exchange system and a gold currency system.

624. In so far as it is a gold exchange system it economises the use of gold, does it not?—Yes, it does to a considerable extent.

625. Might it not be thought that it is in the interests of India to economise the use of gold?—I do not know that it is of so much importance to India; at any rate it is not of more importance to India than to the rest of the world that the use of gold should be economised. The view has been held that gold ought to be used freely because there is too much of it. I think that India must arrange her currency system in accordance with the wishes and convenience of the people concerned without thinking too much of the wide-reaching economic effects.

626. I think you are probably right in saying that the Indian public must have what the Indian public needs. I was rather asking you whether the Indian Government had an interest as distinct from Indian individuals; that is to say, whether India as a whole had an interest either in encouraging the use of gold or in discouraging it?—I think that the Indian Government as representing simply the interests of the Indian people, have an interest in conserving the central stock of gold or of sterling assets, so

* *See* Appendix VIII., page 239.

that it may be strong enough to meet emergencies. Subject to that, I do not think there is any reason, from the point of view of the Indian Government, why gold should not be freely used by the people of India.

627. It has been suggested in a criticism which I have seen of the present Indian arrangements that the keeping of gold in London tends to make it rather a reserve for the London money market than for India, that is to say, that London discounts the presence of this gold, that the London position is the weaker in consequence, and that that injuriously affects India?—I do not think there is any substance in that. Of course the influence which would at any time be exerted on the Indian stock of gold held in England would be the influence of the Bank of England and of the joint stock banks, and I am quite sure that they would never count on the use of Indian gold in an emergency or desire in any way that their wishes should be consulted. They know that the Secretary of State has to be adamantine in his resolution to think only of Indian interests in these matters, and that he is adamantine.

628. I go now to the allocation of the reserves. I gather from Appendix III. that in your opinion London is clearly the right place to hold, at any rate, the major portion of the gold standard reserve?—Yes.

629. The objection to it is perhaps rather a political one, namely, that Indian opinion largely feels that that is some disadvantage to India?—What view is held by Indian opinion as a whole I cannot say. There was a proposal made in the Indian Legislature Council that a considerable portion should be held in India, and it certainly was supported by many members; but whether Indian opinion generally, that is, the opinion of the great Indian public, concerns itself with this matter, I cannot say. In the Indian newspapers I find very little on the subject except when particular writers who are interested in the matter are writing very freely.

630. One of your reasons for objecting to having more of it held in India is the difficulty of earning interest on it?—Yes, that is one reason.

631. Am I right in thinking that though that is a strong reason with you it is not your principal reason?—The main consideration, I think, is that the reserve, wherever it is held, should serve the purpose which it is intended to serve. I think holding the reserve in London does tend to ensure that the sterling portion of it shall be used for the purpose of supporting exchange.

632. Then your argument is that when needed for the purpose of supporting exchange it is needed in London?—It is needed in London.

633. Therefore it had better be kept where it is needed?—Yes.

634. And that has the incidental advantage of enabling you to earn interest on it to a larger extent than would be the case in India?—In India you could scarcely earn interest at all. If it were held in India it would have to be held in gold, I think.

635. I think you have already said that you would like to reduce the holdings of Consols and such like securities which are not repayable at a fixed date?—Yes; I mentioned in a marginal note to paragraph 6 of Appendix III. (page 88) that after 31st March, which is the date to which the statements go, we sold Consols for half a million and bought short-dated securities in their place.

636. Now if you have very large holdings of short-dated securities would you always be certain that you could realise them?—I think so.

637. The presumption being that the moment at which you want the money is the moment of what I may call international money stringency?—It might be or it might not be.

638. Assuming the case that it was; assume a crisis like 1907?—In 1907 we had to take from the gold standard reserve, roughly, nine millions; not only had we no difficulty in getting that nine millions, which mostly came from realising securities, but we had arranged to sell more securities. We had to cancel, or we did cancel, whether wisely or not, the sale that we had arranged, so that we were in no way held up by the difficulty of realisation. Since then—and that is a good basis of comparison, because there was a very bad crisis at that time—the whole reserve has come into a much more realisable form, and if we had to present our six months' treasury bills I do not think anyone can doubt that if they were then due they would be paid, or if they were some months short of being due that the Bank of England would discount them for us at a proper rate. Our next line of defence would be exchequer bonds, which would have perhaps two years to run. I do not think there is any reasonable doubt that we should be able to realise our exchequer bonds. Then there are other bills which have been issued by Colonial Governments, and I cannot conceive that we should find difficulty in realising them.

639. Do you consider that you ought to hold any fixed proportion of the gold standard reserve in gold itself?—I think the real argument for holding a certain amount in gold is an argument which is set forth in one of these papers that, unfortunately from our point of view, perhaps fortunately from the national point of view, the supply of short-dated securities is very likely to decrease. It is the policy of the Treasury, and it has been for many years, since the end of the Boer War, to reduce the amount of Treasury bills in existence, and it is quite possible that 10 years hence there may be no Treasury bills. I think the real reason for holding any gold is that we may be unable to find short-dated securities sufficient for the purposes of the reserve.

640. As long as you can find short-dated securities you personally do not think it of importance to hold any part of the reserve in gold?—No.

641. Of course, if you hold very large sums in Treasury short-dated securities the moment at which you would wish to realise them would be the moment when it would be most inconvenient to the Treasury to pay off those bills instead of renewing them?—Fortunately for us the Treasury has no option in the matter. If we present our bills and say we want our money, then it is for the Treasury to issue corresponding amounts to the public in order to find the money to pay us.

642. The Treasury would be obliged to pay you, would it?—Yes.

643. But the effect on the money market might be very considerable?—Yes.

644. The Treasury might have to borrow such amounts at very considerably enhanced rates?—As far as we were concerned, we should get our money back at par.

645. I agree that India, of course, would get her money back, but what I was coming to was that the result of her suddenly demanding this large sum of money at a time when it was very inconvenient to find gold would have no direct effect on the repayment, which would be certain, but might have an indirect adverse effect upon her trade?—It might.

646. It might help to produce a stringency which might be very injurious?—Yes. May I however mention a point which is really of great interest in its backward illustration of a question which you put to me at the beginning? You spoke of gold having to be found at a particular moment, and of the stringency that might be caused thereby. I do not know whether you, like the Fowler Committee, use gold in the wider or in the narrower sense, but if you use it in the narrower sense then the point which you raise suggests this observation to me—that no need for actual gold arises when India has to realise her Treasury bills and meet a fall in exchange. All that India has to do is to make the payments in what is commonly called banker's money, and that fact, very curiously, critics of our Indian system have frequently overlooked; it is a fact of the first importance.

647. As the volume of Indian trade increases must not the gold standard reserve increase in some proportion to it?—It ought to go on increasing, and whenever the Secretary of State has thought of the matter he always had some scheme for enabling such an increase to be effected. One method is to add all the interest on the investments, if any of it is still held in investments; another thing that can be done, and which is always proposed or generally proposed, is that at the time when the whole profits on coinage cease to

be added to the reserve, a proportion of them, say a half, should go on being added, so that there would be a continual growth of the total of the reserve.

648. In considering these different alternatives has anything like a principle been evolved which should govern the amount to be aimed at?—No, I think that the facts are so uncertain that it would be impossible to arrive at a principle. Of course you know that particular figures have been adopted—the 25 millions, for example.

649. Yes; that is adopted on a general survey of the situation, but there is no principle that would lead to the expansion of that sum in any definite proportion to the development of Indian trade, is there?—No; it is very uncertain. If a great part of it were held in securities one sees how much would year by year be added by way of interest, but how much would be added as representing, say, half of the profits on coinage one does not know, because in many years there would be heavy coinage, and in other years there would be no coinage at all.

650. As regards the Indian branch of the reserve, I have read your statements in Appendix III. on this subject (pp. 94–6). Am I right in thinking that in effect it is really a sort of additional paper currency reserve?—I think roughly it may be so described. Of course every analogy fails at some point, but it serves very much the purpose that would be served by an addition to the paper currency reserve.

651. Might it not be desirable to increase the paper currency reserve instead of keeping the Indian branch of the gold standard reserve?—That would not quite serve the same purpose unless other alterations were made in the rules regarding the paper currency department. I should like to explain that particular difficulty, if I may, as it is a little intricate. If you have rupees in the paper currency reserve you can only take them out either when you cancel the notes or when you substitute sovereigns in the reserve. There are only, if I may put it metaphorically, two keys which fit that particular lock and enable you to get your rupees. This holding of the rupees in the Indian branch of the gold standard reserve is guarded by a lock that can be opened much more easily. One can simply take a loan and repay it when convenient, or one can take the money out and against it merely invest in securities in England. It is very often easier to get at those rupees, I mean quite legitimately and properly, than at those of the paper currency reserve.

652. It is an extension of the uses of the gold standard reserve beyond anything contemplated by the Fowler Committee, is it not?—Yes; it is quite a new departure. I need scarcely do more than say, in passing, that the Fowler Committee dealt very fully with the problems which had arisen when it was appointed, but, naturally, they could not deal with problems which had not then arisen.

653. It is the diversion of a portion of the gold standard reserve from its primary functions?—Yes, it is.

654. You find a necessity, and as you have the gold standard reserve you apply that to meet it?—Yes, and that was done. I may say here it is one of the subjects on which there has been extraordinary unanimity between successive Secretaries of State and successive governments of India.

655. Has there been no difference of opinion between the Government in India and the Government at home?—On very small points there has been, but in substance they have both agreed that this rupee branch of the gold standard reserve should be maintained. As regards the exact method of using it, there have been some differences which I think have been unduly magnified, and in any case they have ceased now.

656. (*Lord Faber.*) Will you be so good as to tell me this—I ought to know it, but I am not quite sure. Can gold be demanded for rupees at the rate of 1*s.* 4*d.*, or is that standard kept up by the favour of the Government?—It cannot be demanded. The Fowler Committee considered that among other questions, and rejected the proposal for complete legal convertibility. The practice is that when the Government has gold in India, as it usually has, it gives it out freely at a particular rate, 15 rupees to the £; and in addition to that, when the state of exchange is unfavourable, it sells sterling exchange on London for rupees. In those two ways it provides what is an approach to convertibility, but not absolute convertibility.

657. Should I be wrong if I said, under those circumstances, that if gold cannot be demanded at the rate fixed by the Indian Government—that is, at 1*s.* 4*d.*—that means that the currency in India ultimately has a silver basis?—I do not think so. It would be on a silver basis if the owner of the silver had the right to bring it to the Mint to be coined, and in that case, of course, the circulating value of the coin would be equivalent to its intrinsic value. Now there is no such right, and the circulating value of the rupee differs very greatly from its intrinsic value. I believe there is only one important country now on a silver standard, namely, China. Before 1893 India was on a genuine silver standard like China.

658. You rather surprised me by not appearing to think there would be very much difference between holding sterling securities and metallic gold; am I wrong in saying that you do hold that opinion?—There are differences, and obvious differences. In what connection did I say that?

659. Suppose to-day, instead of holding metallic gold in India you hold a part of your reserves, say, 10 millions, in sterling securities, and it became necessary for you, in order to support the relative value of the rupee at 1*s.* 4*d.* in India, to sell your 10 millions of sterling securities in London and get gold for them; do you think you could do that in London to-day without an enormous disturbance of every market in the world?—First of all, it depends on what securities one holds.

660. I will give you the best security in the world—Treasury bonds?—When you say gold, what do you mean?

661. Raw gold, metallic gold?—There is no need to have metallic gold for our purposes. I mentioned that to the chairman, and he did not press me to pursue the point, but if I may be allowed I would like to explain it, because it is a point of the very first importance.

662. If you please; it would be very interesting?—May I explain to you what are the circumstances in which we have to use our gold standard reserve? Ordinarily, as you know, India has a favourable balance of trade, and there is no difficulty for any person in India who has ordered goods to be imported on his account to get sterling exchange in order to pay the vendor; but occasionally, perhaps once in 10 years, or once in 20 years, India has an unfavourable balance of trade, and then it is quite difficult for the Indian importer to pay the vendor from whom he has got his Manchester goods, or whatever it may be. It is then, when the holder of rupees is looking about for sterling in order to pay his debts to his creditor in Manchester, that a fall in exchange occurs. I hope I have made that clear.

663. I see that with the foreign trade of India, but I will put it in this way. Suppose in days to come the holders of rupees in India desired for some reason or other, which I need not enter into, to turn their rupees into gold at the rate of 1*s.* 4*d.*, could they say to the Government of India, you must find us the gold?—We have never accepted that position.

664. How are you going to keep the exchange up if you are going to say, when gold is asked for against your silver at 1*s.* 4*d.*, you will not give it?—The rate of exchange is, as you know, a rate of international exchange, and when one speaks of the French exchange, the German exchange, and so on, one means the ratio between the currencies of two particular countries. I think you accept without further question my explanation of how it is in the case of the external trade.

665. I do, quite?—I do not think that there is any country in the world that has ever undertaken the further obligation which you suggest, namely, that it should give silver to anyone who brings gold, and gold to anyone who brings silver. This might interest you. A scheme for doing that, and setting up what is known

as a bimetallic shop—selling silver for gold, and gold for silver—has appeared once in a very interesting economic work, The Theory of Bimetallism,* by Sir David Barbour, who is an old friend of many members of this office. He suggested that as a sort of type of what perfect bimetallism would be, but, according to my recollection, even he, enthusiastic bimetallist as he was, never contemplated that any one country should ever set up a bimetallic shop on that basis, because it would break the greatest and most wealthy country in the world.

666. My suggestion is that you are on a gold basis in India, really. You have practically put yourself on a gold basis in India, I should have thought, by saying that you will pay 1*s.* 4*d.* for a rupee. Does that not put you on a gold basis practically? I know that you cannot run gold and silver at a fixed exchange together, but let me put it as plainly as I can: do you want to pay for the rupee at 1*s.* 4*d.* in gold, or do you not?—Do you mean to enter into a legal obligation to do so?

667. I do?—Then my answer to that is very simple—that we do not wish, and no one of the authoritative bodies that have looked into the Indian currency has ever proposed, that such a legal obligation should be undertaken; and also, if you do not mind my repeating it, it would be unique in the history of the world.

668. (*Sir Robert Chalmers.*) Can you get Napoleons for 5-franc pieces in France?—If you pay for them I imagine you can.

669. But not by law?—Not by law at a fixed rate.

670. Or can you turn the silver dollar in the United States into gold at your own option by right?—I believe not.

671. Can you get a sovereign by law for 20*s.*?—No.

672. Do you know of any circumstances by which you can perform that operation by law?—No.

673. (*Lord Faber.*) In all those countries the silver is merely token money, but it is more than that apparently in India?—May I put this to you? You are quite right in saying the English shilling is a token shilling, and the rupee is in a sense a token, that is to say, it is what economists call over-valued. It differs from other tokens merely in being very much more widely used. It serves as a good token if it satisfies two conditions, first, that its international value be maintained—and that I think you know we provide for adequately; and second, that the person in India who uses it should not use it very unwillingly, because he much prefers another form of money. We are working up to satisfying that condition, and I think that it is to a great extent satisfied now; I do not say that it is completely satisfied, but so far as it is not that is the one defect that I should admit in our system, or rather in the stage of development that our system has reached.

674. With regard to the hoarding of gold in India, there is one very curious feature that we bankers have come across; for the last two years there are certain sovereigns of a certain date that have commanded a very large premium, 1 or 2 per cent. in England for transmission to India, because the Indian princes like certain dates of sovereigns, Victorian sovereigns; and they are willing to pay the 1 or 2 per cent. premium in India for those. I suppose those would be hoarded, would they not?—I suppose many of them would be. The caprice of people in regard to coin is very familiar in all countries, and I think especially in India. It used to be said, and I have no doubt it is the case now, that the old sovereign which had a spade on one side, or rather a shield of the shape of a spade, was always very popular—I do not know why; perhaps it looks agricultural, but it is a familiar fact.

675. With regard to Indian gold that you might have at home in the Bank of England, I apprehend that your gold when it is put there, is earmarked for Indian purposes alone?—Yes.

676. It would not be published therefore in the gold reserves which come out?—When we earmark gold the Bank of England publish the fact in the same way that they publish the fact that so much gold has gone to the Argentine.

677. Now with regard to the gold standard again, may I put this to you: if the Indian Government makes certain sums of money by purchasing silver bullion and turning it into rupees, may it not lose much of it by purchasing the necessary gold to satisfy the holders of the rupees?—I do not see how it can lose. At what stage?

678. There again I am getting on to the rather controversial ground of convertibility. I should have thought that if you made money, in the first instance, by buying bullion and selling rupees, you might, if there were a large run, turning your rupees into sovereigns again, be faced with a loss. If you make money with one hand cannot you lose it with the other?—I think I know what you mean, and I think you will agree that this is a slightly more correct way of putting what is in your mind. You make that profit obviously in rupees; it may be that when you want to convert those rupees into sterling money in some way or other people will not buy them of you at 1*s.* 4*d.* In that case you will not sell them at a loss. I think you were assuming that at that stage, if one could not sell them at 1*s.* 4*d.* one would sell them at 1*s.* 3*d.* What would actually happen would be that one would hold them in suspense, and if things went very bad at that moment, and continued bad, it might be a considerable time before you would really have your profit in the form of sterling—it would be held in suspense in useless rupees temporarily, I think that is the danger that you were really thinking of.

679. If for the moment it is undesirable for you to realise your rupees, should not all money made by the currency be kept for the currency alone? You could not surely use any of it, even for such a benevolent purpose as the helping of railways. Would you tell me if, in your opinion, it would be wise to keep, say, 20 millions of gold in India and 10 millions in London, and that everything else that you make out of the currency should go into sterling securities, not to be sold necessarily, the interest on those sterling securities going to the good of India?—I should not like that at all for a number of reasons. I should not like the 20 millions to be held in India in gold, partly because it would earn no interest—you may think that a good reason or a bad reason, but still it is my reason, such as it is; and partly because to send it out to India when its real purpose would be only to be sent back again would seem to me to be a very wasteful proceeding indeed. That is as regards your 20 millions sterling in India. As regards the 10 millions sterling in England——

680. In gold?—Yes; I think that is more than there is any occasion to keep in gold, because if one can get the right sort of securities, Treasury bills, and so on, which in time of need one would have to sell for bankers' money, and not for gold, it is on the whole more advantageous to keep a smaller sum in gold in England. As regards your further point, if you agree, as I am sure you will agree on further consideration, though perhaps not at present, that at some time you will have reached the highest reasonable limit that any one can think necessary for the accumulation of this fund, then it would be wasteful to go on accumulating the fund beyond the real necessity when you can use the money for other purposes, and for purposes for which it is very urgently required.

681. As we are all, I think, pretty well agreed that the first thing we must consider is the safety of exchange, does it matter whether you lose—I am speaking generally now—even so much as a million a year in interest so long as you make sure of the exchange being kept firm? You would lose a million a year, I allow, on the 20 millions, on the one hand, and the 10 millions, on the other, and my commercial mind does not like that as a rule; but still, for the sake of safety, I should be willing to keep the whole in gold. What do you think of it?—I feel confident that if one handles the reserve properly, and invests such portion of it as one does invest,

* Published by Cassell & Co., 1885.

in suitable securities, the money required would be forthcoming when it is wanted. Even if I had no experience to go on, I should think that on *a priori* grounds; I think it the more strongly because I may say I personally have been through the experience of this crisis of 1907–8, the very exceptional severity of which you cannot doubt after the figures that I have put before you.

682. I think in that period which you were good enough to tell us about there was only one bad monsoon year; suppose we had three bad monsoons one after the other, where would you have been then?—I refer you again to the history of the last 40 years that is given in the various supplementary tables,* and say that in the same way as no business man, however prudent, conducts his business on the assumption that in one year there will be a war between France and Germany, in the next year a war between America and Japan, and in the third year a war between Great Britain and some other power; so one ought not—it would be an excess of prudence, and indeed nervousness—to carry on the affairs of a Government on the assumption that this series of calamities is to be provided against.

683. I think you said that in one year of very bad trade, 1907–8, you wanted 13 millions?—More than that; I think the proper figure is round about 18 millions. That, if you please, is two years, as it extended over the autumn of one year and the greater part of the next year.

684. (*Sir Robert Chalmers.*) The rupee is taken at 1*s.* 4*d.* in exchange?—Yes.

685. In that very simple way it differs from a shilling, which is only worth 12*d.* in exchange?—Yes.

686. Except that the 12*d.*-bit is a limited tender in England, is there any essential difference between that and a 1*s.* 4*d.*-bit, if you had such a coin?—No, except that, in practice, as you know, the Government has undertaken the support of the rupee in times of difficulty, and by so doing has created an expectation that it would do so in future times of difficulty. Except for that there is no difference.

687. There are analogies with the rupee in other parts of the world where you have unlimited tender, such as the West Indies and West Africa, for instance?—Yes.

688. Would you agree that the fact of this unlimited tender would be the most distinctive difference between the rupee and the shilling?—Yes.

689. In regard to the gold standard reserve, I understood you to agree that its primary purpose was to maintain the exchange with London?—Yes.

690. The need of providing the natives of India and other persons with sovereigns was a secondary one?—Quite so.

691. The object of the gold standard reserve was to build up a protection for the parity of exchange at 1*s.* 4*d.*?—Yes.

692. I think you said there was a great deal of unanimity between all Secretaries of State and successive Governments of India as regards the sum, I think it is four millions sterling, that is used from the gold standard reserve, or has been used, for the purchase of silver, and is kept in a silver form in India?—Yes.

693. It may be useful to the Government of India to get it so, but it surely is wholly diverse from the purposes of the gold standard reserve to use your sovereigns to buy silver and keep your silver in India? I do not enter into the reasons, but it is so, is it not?—I do not know what importance you attach to it, but if one is to maintain the parity of the rupee and the sovereign, one has to prevent the rupee from going down, and one also has to prevent the rupee from going up. Some authorities held in 1893, when the Mints were closed, that it would be a good thing to let the rupee rise up to 1*s.* 6*d.*, and that, though it was an arguable proposition, was never accepted. If you have this extra stock of rupees in the gold standard reserve it is an extra safeguard against the rupee going above 1*s.* 4*d.*, which is a point of no inconsiderable importance.

694. Would you agree that there is a certain amount of anomalous appearance in using gold to purchase silver as a means of maintaining a gold standard?—If you say, as a means of maintaining a gold standard, and imply by that preventing the rupee from going down, I should quite agree with you, but I may say that I am quite serious in mentioning that to prevent the rupee from going up beyond this 1*s.* 4*d.* is a matter of some importance.

695. I will pass now to the other reserve you have got, the paper currency reserve. Does the paper currency consist of notes which are issued, and which are payable in silver rupees by law?—No; that is the view which is often mentioned by critics or students of the Indian system, but it is not absolutely correct. The note is payable in legal tender money of the Government of India, and the Government of India has therefore the option of paying either in rupees or in sovereigns, whichever it pleases. It would be a very arbitrary thing for the Government of India, among a rupee-using population, to insist on paying sovereigns, so that the real fact and what you stated in your question come very close together, but what you stated was not absolutely correct.

696. I am obliged to you for your answer—the position being in fact very closely analogous to that which exists in France as regards the payment of a Bank of France note?—Yes.

697. They could pay in gold or in five-franc pieces at their option?—Yes.

698. How did you come to the plan of having first an English branch, a London branch, of the paper currency reserve?—It originated in some correspondence between the India Office and the Government of India, which I think you will see in papers that Mr. Newmarch is submitting (*see* Note III. to Appendix VIII., pp. 284–8). The objects aimed at—and that I imagine is all your question is intended to get from me—were two. One object was that when silver has to be bought because the rupees in the paper currency reserve are very low, it is an advantage to be able to take out gold from the portion of the paper currency reserve held in London, and buy silver with that; it is a most expeditious and convenient way of doing it. Then, secondly, there are occasions when it is desirable to use that gold for the purpose of supporting exchange.

699. By transfer?—Yes, you know the nature of the transfer, do you not?

700. Yes. There are statutes that govern the paper currency reserve, are there not?—There is a consolidated statute.

701. As regards the gold standard reserve there are no statutes?—No.

702. That is at the immediate discretion, subject to publicity, of the Government of India and the Secretary of State in Council?—Yes.

703. Have you thought at all about taking steps to give legislative sanction to the arrangements under which the gold standard reserve is dealt with?—No.

704. I want to ask your opinion now, if I may, on a question of a somewhat hypothetical character. You have got a gold standard reserve which holds silver in India?—Yes.

705. And you have got a paper currency reserve which has got gold in London?—Yes.

706. Would it be possible, in your judgment, to bring together those two things, the paper currency reserve and the gold standard reserve, under commissioners obeying statutes, very much as the Issue Department with us in England?—Yes.

707. In fact to have Commissioners dealing with the issue of notes in India and with the maintenance of the gold standard exchange?—No doubt it would be a practicable thing to do, but before any Act constituting such Commissioners could be advantageously passed, or even introduced, it would be desirable to have considerable unanimity as to what the system should be. As you realise, the work that we have done during the last 15 years in building up this system has been pioneer work, and from time to time there have been different views taken, possibly even mistakes have been made. It is much easier to legislate for a paper

* *See e.g.*, Appendix IV., page 107.

currency and to put that into the hands of Commissioners, because it is worked on very simple lines, than to legislate in that way for a gold standard reserve, the nature and application and location of which are to some extent matters of controversy.

708. Apart from controversy, you would be prepared to agree that very cogent arguments are necessary to deny the claim for the statutory organisation of the gold standard reserve at the point we have now reached?—It is partly a question of the habits of people's minds. When one is dealing with, say the Crown Colonies such as Singapore and West Africa, one's thoughts immediately turn to a statute which is to regulate the behaviour of Currency Commissioners or other similar bodies perhaps with rather different names. In India it has not been the practice to any great extent to create bodies of that kind with strict legislative definition of their functions, and to the Indian official, and to the Indian public, the absence of such a statutorily constituted body to deal with the gold standard reserve does not, as a rule, appear striking, I should say.

709. To the public might it not seem an added guarantee?—It might. It is really a question of public opinion. The Karachi Chamber of Commerce, as you know, thinks that the mangement of the gold standard reserve should be defined by statute; that is in the papers that have been circulated. I think it is the only body that has made such a proposal.

710. As regards the holding of gold in India, are you quite clear that as a matter of mere economics it would be wrong to hold your stock of gold, whatever may be its amount, away from the spot at which it could be required?—You say as a matter of economics—yes.

711. Would there be any other argument in your opinion on the other side, except one of what we may call a national sense?—No, absolutely no argument at all except that.

712. In your opinion?—In my opinion.

713. (*Sir Ernest Cable.*) A good deal has been said this morning about the silver held in India and the gold standard reserve, but I notice that in Appendix III. you mention that the arrangements were perfected which would avoid hasty coinage in future; I think it was one of the objects of that reserve to avoid hasty coinage?—That was one object.

714. I understand also from Appendix III. that the arrangements were effected by which any hasty coinage will be avoided; is there any longer any reason on that account, at all events, for holding silver in the gold standard reserve in India?—I do not think that that reason is now a good one for holding the Indian branch, but in Appendix III. I have given a wholly different reason, which I think is a good one, that is to say, it provides in a way which otherwise might not be easy to provide, for the expansion of the currency at particular times.

715. When you coined this silver and kept it in the gold standard reserve there was some profit on the coinage; did you credit the gold standard reserve with the profit?—It is rather the other way round. When certain silver was being coined, and I think coined mainly to put into the paper currency reserve, there was a profit on it, a profit which naturally accrued, in the first instance, in the form of so many extra rupees, and these extra rupees were kept in the Indian branch of the gold standard reserve, and formed the Indian branch. You pay a certain sum which is equivalent, say, to 100 rupees in order to buy silver, and then you get silver out of which you coin, say, 130 or 160 rupees, and the odd 30, or the odd 60, is the profit.

716. And that is now credited in the reserve?—Yes.

717. I do not think the reasons for the location of the gold standard reserve were quite brought out this morning. Do you not think, even at the cost of losing some interest, that if it did buttress public confidence, so to speak, it would be advisable to keep a large sum in cash in India?—I think that the only thing to be said in favour of that is that a certain number of people might like it and feel their national sentiment gratified. Since it would involve a very considerable expenditure one way or another, even if it were merely the expenditure required in order to take the money out and then in times of need bring it home again, I think that I should be rather slow in meeting that sentiment unless its existence were much more clearly demonstrated than it now is.

718. In paragraph 9D of Appendix III. (pp. 89–90) you gave as one of the reasons for not holding the gold standard reserve in India, that the gold would not be exported but would pass into use in India for circulation and other purposes, and on this ground you hold that the gold has failed to fulfil its original object, namely, the maintenance of the par value of the rupee; but is it not the fact that by the issue of gold on the one hand, and on the other the corresponding withdrawal of the rupee, the gold value of the rupee would be raised?—That is a view which I have often heard, but with which I do not agree, assuming that you mean immediately raised. The mere fact that the number of rupees in circulation is reduced, and the number of sovereigns in circulation or available for circulation is increased, does not seem to me to affect materially the exchange value of the rupee. As I was explaining to Lord Faber, and I think he quite accepted the explanation, the exchange value of the rupee in the international sense, depends on the balance of international trade and international indebtedness, and an alteration of the mere quantum of rupees in circulation does not, I think, affect it. I quite admit that if that alteration in the quantum of rupees affects prices in India and affects the amount of export trade and so on——

719. It would cause a fall in prices?—That then it does tend to steady exchange. But such a fall in prices as you suggest, would probably occur rather slowly, whereas an exchange difficulty should be set right with the least possible delay.

720. I think Lord Faber suggested certain figures to which the gold standard reserve should be raised; of course, it is impossible to fix any limit to that, and in fact I do not think he attempted to do so, and the only way to do it would be to hold frequent conferences with chambers of commerce and so to get their views as to the amount that should from time to time be held in the gold standard reserve; what would you say to that?—I am always in favour—and I may say that I have been in every branch of my work at the India Office—of frequent consultation orally as well as by letter with the qualified representatives of the commercial community. If from time to time there were a discussion between the India Office and the leading members of the commercial community at Calcutta or Bombay, I think it would be to the advantage of all parties concerned—it would help to solve that particular question that you mentioned, and would probably remove misunderstandings.

721. Sir Robert Chalmers asked you about the amalgamation of the two reserves; I think he dealt with the question more from the point of view of administration, but I should like to ask whether there would not be a practical advantage from the business point of view in amalgamating the two reserves?—I think in some ways it would be a convenient thing to amalgamate them, but there are some considerations on the other side. You know, no one better, how very sensitive and conservative Indian public opinion is in these matters. To mix up a paper currency reserve which serves one purpose, and a gold standard reserve which serves another purpose, might shake Indian public opinion. Then there is also a practical danger in the way of amalgamation, which perhaps you have thought of, but I might mention it. As I was saying before, the paper currency gold is meant to flow out in good times and the gold standard reserve gold or securities to be held as a reserve until bad times come. If you amalgamate those two reserves, which have gold that has to be used for quite different purposes, you may fail to notice the difference of the two purposes, and you may treat the whole of them as though held for the same object. I do not say that that is an insuperable difficulty, but at any rate it is a danger which has to be borne in mind,

722. Do you consider that the increase in the quantity of gold in circulation in India would provide a reserve against a falling exchange, and therefore it might be desirable to encourage the circulation of gold?—There is a certain advantage in it. I myself rather hold the view which has been put forward by many eminent writers that what you may call the waistcoat-pocket money of the population is not of much use for steadying foreign exchanges, and that if one is in the habit of carrying 5*l.* in one's purse one goes on carrying 5*l.* in one's purse whatever the international situation, and that sort of money does not come out at a time of crisis or of a falling foreign exchange. But, of course, that is a doctrine that has to be pushed only up to a certain limit; occasionally that circulating money is of some use.

723. (*Sir Robert Chalmers.*) That was the view taken by Lord Goschen when he was Chancellor of the Exchequer, was it not, nearly 25 years ago, at Leeds?—Yes. It is one of the few doctrines under discussion now on which one has an expression of opinion from one whom I may call my late colleague Mr. John Stuart Mill. He was very strong on the comparative ineffectiveness for steadying foreign exchanges of the gold that is in actual circulation; the passage* has often been quoted.

724. (*Sir Ernest Cable.*) It has been stated by some people that gold is becoming scarcer and that the Indian absorption of gold is regarded with alarm in some quarters; is it not the fact that the production of gold during the last 10 years has increased at a faster rate than the trade of the world?—I cannot say that it has increased faster than the trade of the world, but I know that the increase in gold production has been very great indeed. The fact of prices going up is probably an indication that gold production has increased faster than trade.

725. You have stated in your memorandum that if you were asked to give evidence as to how the silver purchases were regulated you would explain the improved system. Will you kindly give us that information?—In answer to the Chairman I referred to the memorandum of 1910, and I really think that all that is of considerable importance is to be found in that memorandum (*see* Enclosure to Despatch to the Government of India, No. 25, of 18th February 1910, Appendix V., pp. 188–94). Of course, you have to read it with the letter from the Government of India, in which, subject to some slight reservations, they accepted the principles of the memorandum. (*See* No. 48, dated 29th February 1912, page 195).

726. To take you back for one moment to your evidence of the other day, you stated that the Mahratta Railway loan was not going well; do you not think that a 4 per cent. Government railway bond with the interest secured on the Government railway revenue, and paid within a fixed period, would be a most popular security and would procure for the Government all the funds they need for railways?—If one were considering merely one year's operations, I have no doubt that an issue of terminable bonds would be very proper, but, as I think I have mentioned, or as I intended to mention if it were put to me, if you have an illimitable series of years in each of which you have to borrow money, and then you create a series of terminable obligations, when the time comes at which the first batch mature you are apt to find yourself in great difficulties. I merely put that as indicating that what you propose can only be applied successfully if applied with very great moderation; and probably you yourself would agree to that qualification.

727. (*Mr. Keynes.*) There are one or two points of detail that I would like to have a word or two about first. About the term short-dated securities, would you include any security with less than five or six years to run?—Yes; but, of course, if all one's securities had so long to run as that I should not regard the whole of them as a good assortment of short-dated securities.

* Principles of Political Economy, Book III., Chapter XXII., § 3 *ad fin.* (p. 187 of Vol. II. of Messrs. Longman's Edition of 1878).

728. I think the Chairman asked the question whether they were always realisable; would you hold that for instance New South Wales stock maturing in 1918 is as easily realisable as Consols which have no date of redemption?—It depends on the quantities. Supposing you wanted to realise many millions, you might find a difficulty, but within a moderate limit of amount I should think that it would be very realisable assuming, of course, that the repayment is obligatory and not at the option of the borrowing Government.

729. Would you not say that the buying of short-dated securities is an insurance against the depreciation which is due to a long-period change in the rate of interest—but that is not the same thing quite, as easy realisation. Would you not say that the advantage of New South Wales stock repayable at par in 1918 over Consols is that you have insured against the rate of interest falling in the intervening period?—Yes.

730. But that is not the same thing as having something which you are quite sure is marketable at a given moment?—Quite so. There are two quite different considerations. It is quite possible to secure oneself against depreciation without attaining easy realisability. An extreme instance would be if one lent money on mortgage on private estate. That might be very unrealisable, although you had the security against depreciation. I quite recognise the difference. Our main object in seeking short-dated securities has been to attain realisability: it has not been so much, though the two are connected to some extent, to avoid depreciation. Whether we in every single investment have been absolutely wise is another question.

731. In the last five years your policy has shown a great reaction against the purchase of Consols?—Yes.

732. Would you argue then that you have done that because you think Consols are less realisable than they used to be, and not because Consols have become unpopular through having fallen in value steadily?—I am not sure that you put the distinction quite as I understood it. The advantage of short-dated securities is, first, that you can realise them readily, and secondly, that you can realise them without loss. In one case it is speediness of realisability; in the second case the freedom against loss. The speediness of realisability is what I think has weighed more with the India Office; that is certainly what has weighed more with me personally.

733. And you think on that score there has been good reason for reacting against Consols?—I think so. Of course I am influenced very much by what I hear from financiers of my acquaintance, bankers and so on. In 1908, when we had to do a great deal of realising, as you will see from the figures, we did not find any considerable difficulty; but in subsequent years we have been impressed by the fear that we might possibly find difficulty.

734. I wanted to get the point clear as to whether you had reacted against Consols, because of their long fall in value, or because you thought they were less realisable than they used to be; that second reason is the one which has weighed most?—Yes.

735. (*Chairman.*) You distinguish two advantages in short-dated securities?—Yes.

736. One is that they are more immediately realisable, and the other is that they are immediately realisable without loss?—Yes.

737. Is there anything you could hold which you can with more certainty realise immediately than Consols? You observe that on this occasion, I do not say without loss, but is there any security you could have which is more marketable than Consols?—No doubt that is the most marketable of all the permanent securities. I should say that Treasury bills at a time of difficulty are much more marketable than Consols.

738. If you wanted to realise 10 millions to-day, would it be easier to realise 10 millions in Consols supposing you had them, and subject to a possible slight loss, or 10 millions in short-dated securities?—I should say—but of course I speak with some diffidence—that it would be easier on a day like this, which as you know is not a very happy day financially——

739. That is why I choose it——?—I should say that it would be easier to realise, if one went to the right people, bankers and so on, 10 millions of short-dated securities of the same standing. Of course I am not comparing Colonial Government securities with Imperial Government Consols, but comparing the Treasury's Treasury bills with the Treasury's Consols.

740. At the moment there are not many Treasury bills out?—The number has decreased.

741. If you wanted to realise a large quantity of short-dated securities you would have to sacrifice your interest at least, would you not?—Yes, you may have to sacrifice the interest that has accrued.

742. And you might have to sacrifice possibly something more?—Yes.

743. So there is that to be set against any loss in price which you would incur if you sold Consols?—Supposing one had to sell 10 millions of Consols to-day I should expect that the loss would largely consist in a sort of insurance by the purchaser against the risk of a further fall. He would buy hoping naturally that they would go up hereafter, but with the knowledge that they might conceivably go down, and probably in the price of so large an amount he would cover himself very liberally against the risk of the Consols going down.

744. If you were selling Consols you would be dealing in a larger market than if you were selling short-dated securities?—That is quite true, and when you are dealing with hundreds of millions that would be a point in favour of Consols for us, but when you are dealing in such a sum as 25 millions, then I think the money market as distinct from the investment market, is big enough to enable us to do what we want to do.

745. (*Sir James Begbie.*) On the question of the sale of securities has the experience not been that you have had to sell comparatively small amounts in one week; in 1908, for example you never had to sell more than a million at a time, had you?—I think that the biggest individual transaction that we arranged was when we sold two millions to the National Debt Commissioners; that is my recollection. But I quite agree with you that if you were selling week by week a million a week would probably be as much as one would like to sell.

746. (*Mr. Keynes.*) I may assume, therefore, that the reason why you have the miscellaneous selection that I see in this list, of three kinds of New Zealand debentures, two of Queensland, three of New South Wales and so on, is because you think they are more easily realisable than Consols or at any rate mainly for that reason?—Yes, but of course you have to have regard to the comparatively small amounts of them.

747. In the course of your evidence in answer to the Chairman, you drew our attention to the exceptional severity of the crisis in 1907, and as a part proof of that you handed in Statement 3, Appendix IV. (page 108), showing how very much more the trade balance dropped in that year than in any previous year of famine. I notice that in that table the chief explanation of that is to be found in the high level of imports; would you agree to that?—It is a common experience that when our exchange gets into difficulties and when one looks for an explanation to a reduction of exports, which is where one would look for an explanation, one finds it very incompletely there, but one finds, as a rule, a surprising increase in imports. You ask me whether I agree to it in that one particular case, and of course I do because the figures speak for themselves. I was going merely to draw your attention to the fact that in other periods of notoriously difficult exchange the same thing is to be noticed.

748. In this actual year, 1907–8, the imports were at a considerably higher figure than in any of the preceding years, or than in the two years following. I suppose the explanation of that would be that it followed on exceptionally prosperous years, and that they were really purchases that had been entered into previous to the famine?—No doubt, and that no doubt would apply to the imports of merchandise, and to some extent also to the imports of silver which follow the same course.

749. Would you hold that that was a very exceptional circumstance? On a future occasion might it not happen that the crisis, when it came, would come immediately after two very good years?—It might; there is no special reason why it should, but if it did no doubt there would be still, as you say, imports coming in as the objects on which cultivators were spending their extra earnings, and that would tend to aggravate the exchange difficulty. I quite agree with the general line of your remarks.

750. Would you agree to this further development of the idea, that in 1907–8 the Indian public had got more into the habit of buying foreign goods than they were on the occasion of the previous famine, and that that tendency continues?—No doubt.

751. Therefore, this buying of foreign imports in advance is likely to be a factor more important in the future than it has been in the past, in the 90's that is to say, from which you argued?—Yes. That, I think, is a good ground for criticising and modifying the inferences to be drawn from the figures of the 20 years that I have given. I have nothing to say in opposition to that line of criticism.

752. Further, in using the experience of 1907–8 I suppose you would agree that allowance ought to be made for the increased scale of the whole foreign trade since that time?—Yes, certainly.

753. That if the imports and exports have increased 20 per cent., or whatever it is, you ought to add on to your experience of 1907–8 a corresponding percentage?—You ought to add on something.

754. Would you agree that in 1907–8 the complete absence of any banking trouble in India rather altered things?—Do you mean that the exchange difficulty would have been greater if Indian banks had begun to go wrong?

755. Yes?—I am not at all sure. I have often thought about it; it depends what kind of bank one has in mind. I daresay you have noticed that if the exchange banks got into difficulties and their customers in India drew out the very large deposits that are due by the exchange banks to their customers, the exchange banks would, somehow or other, have to send out money to India in order to satisfy their customers, and that in a very calamitous way would tend to set the exchange position right from the Secretary of State's point of view. I think you follow what I mean, and that I need not expand it in detail.

756. I only wish to get your opinion on the matter. I should like now to ask a series of questions directed towards the relation between the gold standard reserve and the other reserves. I take it that the stability of the rupee is supported not only by the gold standard reserve, but also by the gold of the paper currency reserve, and any other sterling resources which the Government happens to have?—Yes, certainly.

757. The gold standard reserve is built up from the fruits of the economy of using token silver coins?—That is so.

758. And the presence of the gold of the paper currency reserve is due to the fruits of the economic using of the paper currency?—Yes.

759. Then the two reserves are distinguished in origin?—Is that quite right? When we are wise enough to coin a 10*d.* rupee and put it into circulation at 16*d.*, that is wise economy, and the profit, as you truly say, goes into the gold standard reserve, and your description is quite right. But when a man brings you two sovereigns and you issue 10-rupee notes to him instead of issuing to him in exchange 30 individual rupees, I am not sure whether there is any close analogy between the building up of the profit and the economy, is there?

760. I should say that the analogy was almost perfect, but perhaps we are at cross purposes?—One is an obvious economy, and I quite agree with the way you describe it. The other seems to me to be merely an exchange between a full-value sovereign and 15 rupees, in which the results of economy are embodied. I do not wish to interrupt the questions, because if I do not follow what you said on this particular point, I do not suggest that there is any serious difference between us.

761. The only point I wish to make is that the two reserves are distinguished in origin?—That is so.

762. How do you distinguish their uses—I am speaking now of the gold branch of the paper currency reserve and the gold branch of the gold standard reserve?—Are you asking me to repeat what I mentioned in answer to the Chairman and Sir Ernest Cable, that the gold of the paper currency reserve, so far as it is held in India——

763. I was thinking of the chest in London?—To all intents and purposes there is no difference between the use, except so far as you may say that the gold in the paper currency reserve in London could be used to pay for silver; but that one may put aside. You are asking, no doubt, with reference to the use of that particular gold to support exchange; in that respect there is no difference.

764. In paragraph 7 of Appendix III. (pp. 88–9) you suggest that 5 millions sterling is a suitable amount to hold in gold in the gold standard reserve; is this amount contingent on the amount earmarked in the Paper Currency Chest?—When I wrote that I was assuming that there would be gold held in the paper currency in London.

765. Were you making any assumption as to how much?—No. We have for some years held sums varying between 5 millions and 7 millions; occasionally they have gone up a little; I had in my mind about 5 millions.

766. Your view then is that you ought to hold about 5 millions in the gold standard reserve if you are holding from 5 to 7 millions in the paper currency?—I would not crystallise it too much. Supposing that at a particular time one had very little in the paper currency, I do not think that I should hold that one ought to increase the amount in the gold standard reserve, but still I should not seriously dissent from what you said.

767. My point was how much gold you want to have in London altogether to whatever reserve it is credited; and I wanted to get at your notion as to what the proper figure for the total gold in London was; it does not seem to me that the particular way of crediting it is of such fundamental importance?—It is very indeterminate. One wants to have, I think, at least 5 millions, preferably more, which you can use almost at a moment's notice, which at any rate you have so much under your control that at the beginning of an exchange crisis you can offer to sell, say a million of bills, of the kind that was sold in 1908, per week for several weeks, and feel that you are provided with the means to meet them.

768. You will want to hold some gold, and I was wondering whether you had settled at all in your own mind what the amount should be in present circumstances?—No. I do not think that one can give anything more than one's own estimate of how much would make one feel quite comfortable with this responsibility of meeting an exchange crisis on one. I should say that if one were as low as 5 millions, one would not feel that one was ill-provided for, that if one had 10 millions one would feel that that was rather better but not a wasteful amount, and that if one had more than 10 millions I should feel at any rate that it was rather wasteful. I do not think I could put it more definitely than that.

769. Are you of opinion that the amount in the gold standard reserve, which ought to be dent at short notice in London, is in any way contingent on the amount that is lent in this way from the general balances?—Only in this way, that if we were lending from our general balances as much as our approved borrowers would take it would be difficult to lend from the gold standard reserve as well, and certainly one ought not to be lending so much that approved borrowers of less than the very highest standing were accepted in order to find a clientele.

770. You would argue in this way: that as long as it was your normal practice to have 5 millions or 6 millions lent at short notice from the general balances, then that 1 million lent in that way was enough from the gold standard reserve; and if your normal practice changed so that you only lent, perhaps, 2 millions from the general balances, then you ought to have more in the gold standard reserve lent in that form?—That, if I may put it in an almost primitive way, is not quite the way my mind works in these matters. I think what is behind your question is this: that the smaller your general balances at any given moment the larger your special reserves ought to be, if you are to be well equipped for meeting a sudden fall in exchange.

771. Particularly, that the smaller your general balances, the larger your special reserves ought to be in the most liquid shape?—I think that the reason that I am not able to answer you quite as directly as I should like is that in preparing for an exchange crisis, or in considering how one will prepare for it, one has in mind that one will rely on certain special reserves, and one leaves the general balances out of consideration, thinking they will just be enough to pay the ordinary current expenses, and that they will be of no help for the exchange crisis. I realise that if at a time when our balances had risen as they have recently to a very unusual height, 18 or 19 millions, an exchange crisis had then come, those high balances would have been very helpful to us.

772. I can understand your taking the view that the general total of the reserves ought not to be influenced by your temporary balances, but would you also hold that the form in which you ought to keep your permanent reserves is uninfluenced by the amount of temporary balances that you have?—Yes, because according to my view, and if I may so put it, our system rather stands or falls with its correctness, the various reserves that one holds can be realised when we want them. It is true that we cannot realise 4 millions of Consols advantageously in a week, but we have built up a system so that, if we saw the need for realising all our reserves, by the time we wanted our 4 millions of Consols we could have realised them, and our gold and our short-dated securities and so on would last us during the period required for the realisation of the Consols. I hope I have made it clear that that is why I do not attach, if you do not mind my putting it in that way, very much importance to the consideration that you were last mentioning.

773. You would not feel at all that as long as it is the policy to hold 5 millions or more in the general balances at short notice, there is no need of holding a million as well in the gold standard reserve at very short notice?—No, because I feel that the general balance is hypothecated for quite different purposes. Also, just let me mention this to remove a possible misapprehension as regards fact: one speaks about our 5 millions or 6 millions as a standard for the general balance, that is to say, for the closing general balance on 31st March in each year; but that is a very fluctuating sum. As I mentioned previously, in the course of a few days we might be paying away 3 millions or 4 millions, and those occasions when we have very heavy payments recur at least four times a year, when the quarterly dividends have to be paid.

774. You have suggested 25 millions as the proper limit of the gold standard reserve (*see* paragraph 19 of Appendix III., page 93); is the suitability of this particular sum in any way contingent upon the amount of sterling resources held otherwise?—I had in my mind that we should probably have 5 millions of gold in the paper currency reserve in England. That was the only special resource that I assumed. I assumed that our general balance would not be exceptionally high or exceptionally low, because it would serve the primary purposes that it is meant to serve.

775. Your view is then that about 30 millions is the proper limit for all your sterling resources which are connected with the support of exchange?—Yes. I should call that a liberal limit.

776. In calculating the proper amount of the gold standard reserve, are you considering merely the obligation under which the Government of India lies to support exchange and to be prepared to change into sterling all rupees and notes presented; or are you considering other possibilities as well?—Would you indicate the other possibilities that you have in mind?

777. Are you considering the possibility that the Government of India would have to assist the Indian

money market at a time of severe crisis, or merely that they should change into sterling such notes and rupees as the Indian money market should tender to them?—I have always assumed that if in a time of severe crisis the Government of India had to assist the Indian money market, it would assist it in India, and that the need for granting such assistance would not make any demand on the sterling resources which we have been considering.

778. If the Indian money market were helped in India that would increase the amount of funds available in the hands of Indian bankers for tendering for sterling bills, would it not?—May I answer you in this way, that you are regarding, if I understand you rightly, the amount of the drain that may come on our sterling resources as a certain function of the currency which Indian bankers and the Indian public could tender for the purchase of bills on London; but I regard it as a function not of a certain quantum of currency but of a certain balance of foreign trade, and all my arguments and calculations are based on that.

779. I am glad that point has been brought out. I myself should not say that it depended necessarily upon either of those, but it depends upon one or other of them according to the policy adopted; therefore I ask you which policy is adopted? Let me put it in this way: if the existing volume of the currency is the test then it seems to me that implies a policy of only giving sterling for rupees and notes; if the balance of trade is taken as the test then some other standard is applied. Would you agree with that?—I have always taken the balance of trade as the proper measure of the possible liabilities that would have to be met in a period of exchange crisis, and I have disregarded the quantum of currency altogether.

780. With reference to a question which Sir Ernest Cable asked, do you think that when a certain point is reached in the accumulation of the gold standard reserve it is the profits on the further rupee coinage which ought to be diverted, or rather the interest on the former accumulations that should be diverted?—I do not think it matters very much, but I do not see how anyone could answer that with any definiteness. My feeling, as was brought out, I think, by the Chairman and other questioners, is that if you have worked up to a certain sum as being a suitable reserve at a given time you must let it go on increasing by moderate increments year by year, or decade by decade, so as to provide for the natural growth of trade; and whether it is better to let it grow by the accretion of interest or by the accretion of profits is a question to which I could scarcely give any useful answer.

781. I put a more precise question than that. When you say after 25 millions has been reached further sums should not be credited to the gold standard reserve, do you mean that the interest of those 25 millions should not be credited, or that when further rupees are coined the profit on those rupees should not be credited?—I think I fully understood your question, and I am sorry if I did not make my answer clear. My answer was intended to be this: you must go on, or it is desirable to go on increasing your fund year by year; whether you increase it by adding the interest and diverting the profits or whether you increase it by adding the profits and diverting the interest is a matter on which I do not feel that I, or indeed anyone else, could give an opinion of any great value.

782. I had not understood that the 25 millions you suggested was a figure which is only valid, as it were, for the moment?—In this as in many other things one is always in a state of flux. If 25 millions is valid now, then 25½ millions will be valid next year, and 25½ millions the year after—I am taking, perhaps, rather large increases. As the business of India increases so ought your reserve to increase by an amount or in a ratio which it would be affectation to pretend to define with any exactness.

783. I understood you to say that when the gold standard reserve had reached 25 millions no more ought to be accumulated. I understand now that what you are saying is that if the gold standard reserve were 25 millions now then no further accumulations ought to be made; is that right?—What I meant to say was this: Until we have 25 millions let us have the full profit and the full interest; when we have reached 25 millions then do not let us say the fund has reached its maximum, but let us provide for accretions on a smaller scale than hitherto; let us either add the interest but not the profit, or the profit but not the interest, or some proportion of the profit. I wish to be rather indefinite. I only wish to put forward the view that some accretion, but not so much as now, should take place when the 25 millions is reached.

784. I wish only to elicit the precise nature of the indefiniteness, if I may put it in that way. Turning to the Indian branch of the gold standard reserve, is it not rather confusing to the public that the gold standard reserve should hold silver?—Yes, I think it is, more especially because the true explanation, or at least my view of the true explanation, has never been put before the public. What has been put before the public is rather the view that this Indian branch is a bulwark against hasty coinage, which does not very much commend itself to my mind. I think that what I regard as the true view is quite comprehensible, but I should agree that though comprehensible it is perhaps not easily comprehensible.

785. Would you mind explaining what the reasons are against the book-keeping transaction by which 4 millions of gold would be transferred from the paper currency reserve to the gold standard reserve, and 4 millions of silver transferred from the gold standard reserve to the paper currency reserve; why should that not be done?—The difficulty is simply this: We may assume that the rest of the Paper Currency Act is going to stand as it is, because what I am going to say depends upon that assumption. If you wish at any moment to take out your 4 millions of rupees from the paper currency reserve you have to do one of two things; as I put it in answer to the Chairman, you have to apply one of two keys to the lock—you either cancel notes or you earmark gold. There are times when you would like to get at the rupees, but it is inconvenient to use either of these methods, and then, instead of these rupees being left in the paper currency reserve and in the gold standard reserve, you have a third and much easier method of getting at them, namely, you can either take a loan, which I do not think a good scheme, or you can make an investment in securities in England as against the rupees that you have taken out from the Indian branch.

786. That is to say, more latitude is allowed as to the manner in which the resources of the gold standard reserve can be held?—Yes.

787. So that if you have to make a sudden change, there are more ways in which you can do it?—That is so.

788. But apart from that there would be no advantage in holding any silver in the gold standard reserve, would there?—No; that to my mind is the only advantage.

789. Therefore, if the latitude which is allowed with regard to the gold standard reserve were allowed in the case of the paper currency reserve, you would then clear out the silver from the gold standard reserve altogether?—I am not sure that the Government of India would agree, but I am giving my opinion. My answer is yes; but I do not wish to commit anyone but myself to that answer.

790. So that the explanation of a practice which is rather confusing to the public is that it is simply a detail of the machinery?—Yes.

791. And has no real fundamental significance?—I do not think so. Of course, the general public who are accustomed to the Bank of England method of keeping a note reserve, which seems to me as unscientific a method as could be devised, would regard it as a very serious departure from orthodoxy that the greater latitude should be allowed in respect of the management of the Indian paper currency reserve. I do not think that there is anything in that view, but still it is widely held, or it would be widely held, if any change were proposed.

792. In paragraph 4 of Appendix III., page 88, you mention that 1s. $3\frac{29}{32}d.$ was the price at which sterling bills on London were sold in Calcutta; why was this particular price adopted?—We were told at the time that if bills were offered at that price bankers would take them in preference to taking gold, as it was just a shade more favourable to them than taking sovereigns. Whether that was a good reason or not I do not know. As one goes over it one sees that it is not particularly conclusive, but one wants to have the price that is nearest to the effective gold exporting price, and I think that 1s. $3\frac{29}{32}d.$ does answer to that.

793. I do not want to press you about this next question, but it is very important for Indian business men and bankers to know beforehand the maximum fluctuation of exchange; would they, in your opinion, be justified in assuming that that would be the price at which sterling bills would be sold on a future occasion?—Without being indiscreet one may say that when a Government has once conducted an operation of this kind on so great a scale, it is exceedingly difficult for it not to do it again when a similar occasion arises. The presumption is, I suppose, that it would do it in the same way as near as may be.

794. Would you agree that to sell bills in Calcutta at that rate, namely, 1s. $3\frac{29}{32}d.$, corresponds to a state of exchange similar to that in which bills on Calcutta would sell in London at 1s. $3\frac{27}{32}d.$ or thereabouts?—Whether the difference is so much as the sixteenth which you assume I do not know, but there would be a difference in that direction, though I cannot say whether it is of that magnitude.

795. So, if that policy is pursued, the maximum fluctuation in the price of bills in London on India would be between 1s. $3\frac{27}{32}d.$ and 1s. $4\frac{1}{16}d.$?—Yes, taking your figures as correct. It may be subject to some slight correction.

796. Would it be dangerous from the point of view of the reserves to make that maximum range of fluctuation rather smaller?—No. I think from the point of view of the reserves there will be no great danger in slightly reducing it. Of course, one does want to have a maximum and a minimum. That is better than having a fixed rate.

797. Certainly; and I am asking about the amount of the range of fluctuation, assuming there must be some fluctuation?—As regards the amount, I do not think that there will be much danger. I am not very captivated by the idea of reducing what is not a very serious difference, because these maxima and minima only become operative in emergencies; it is not as though they governed the ordinary rise and fall in exchange in ordinary times. I should not like to express an opinion in favour of the reduction without thinking over it further.

798. But you are rather inclined to think that the present range of fluctuation errs on the side of excess rather than the other way, are you not?—I do not think that it is far away from the right amount, but if it does err I should say it does err a little on the side of excess. I would go that distance with you.

799. In answer to a question put to you earlier to-day as to whether the Government of India had an interest in economising gold, you replied, I think, that they had no interest when their central reserve was adequate, or something to that effect—they had an interest as long as they were building up a reserve, but not afterwards?—Yes.

800. Is not the diversion of the gold standard reserve and of the rupee securities of the paper currency reserve to railways a consequence of economising gold, and also a general advantage?—I think the answer to that is in the affirmative, but for the moment I am puzzled to see the connection between it and my former answer. May I put it in my own words to see if I have your meaning correctly? It would be advantageous to the Government of India when they had their full reserves built up to the proper amount to encourage the use of rupees, because in that way money would become available for railways which would not become available if gold were used instead of rupees.

801. That is my point?—The answer is clearly in the affirmative. I am sorry to have taken up your time by repeating it, but for the moment it was not quite clear to me.

802. Therefore the Government of India still has an interest in economising gold even after their reserves have been built up?—Yes; but it is not a point on which I should be very much inclined to insist, and may I explain to you why? So far as this is to be effective it implies that the Government of India would rather persuade a man who wants a sovereign to take 15 rupees, because out of that exchange there would be something that would be available to be spent on railways, namely, the profit on the 15 rupees. That is all sound and good, and I cannot deny it, but it does rather run counter to my old-fashioned notion that the first business of a Government when dealing with currency is as far as possible, without conflict with higher interests, to give the currency that the population requires. Of course you may say that to give a sovereign instead of 15 rupees does involve a conflict with higher interests.

803. (*Sir Shapurji Broacha.*) I think the Secretary of State, with the concurrence of the Government of India, appointed a committee in 1898, which is now known as the Fowler Committee?—Yes.

804. Their conclusions and recommendations were accepted in their entirety?—Yes.

805. By both?—Yes.

806. The Secretary of State has said about the conclusions of that committee, "His Majesty's Govern- "ment have given to this report the careful considera- "tion which its great importance deserves. They are "impressed by the array of arguments and facts "embodied in it, and they have come to the conclu- "sion that it is advisable to accept generally and to "act upon the principles which it recognises." Has not that the force of a law or statute to be followed for the future guidance of the Government of India and the Secretary of State?—It has very great authority, but from time to time points which were not before the Fowler Committee come up, and the committee's recommendations must therefore be supplemented, and occasionally the need might arise for modifying them.

807. I do not think the Secretary of State or the Government of India had made up their minds about maintaining the exchange at 1s. 4*d.* before the report of this committee; they had no previous basis to go upon, and according to my idea they had stumbled and erred before?—I am sorry to say I do not quite agree with you. Before the Fowler Committee there was a committee consisting of many very eminent men, the Herschell Committee, which really laid the foundation of our currency system.

808. How long are the conclusions of such a strong committee to last for the guidance of the Secretary of State and the Government of India? Are they to be broken in every respect before the ink is dry?—Certainly not. I hope that committee was not so treated.

809. That report was presented to the Secretary of State on the 7th July 1899, and before a year had expired large and absolutely new things were brought out, for instance, the putting of the rupee paper and gold of the currency reserve into sterling securities; and all this was done without taking advantage of the guidance, for even a few years, of the recommendations of the committee?—I think you are referring to Sir Edward Law's proposals of 1900, are you not?

810. Yes (*see* paragraph 23 of Enclosure I. to Government of India's letter, No. 302, of 6th September 1900, Appendix V., page 119); much of that was acted upon, though Lord Curzon was afraid that order was very large and he could not follow it?—May I explain to you that when profits on coinage accrued and they had to be dealt with in some way, it was necessary for the Government of India to propose some scheme for dealing with them?

811. Can we anticipate that the fate of this Commission will be the same before the year is out?—No. Just let me put this to you, because I am really anxious that you should not misunderstand the facts: Supposing

that this Commission recommended in general terms a State bank—I have no idea whether it will do so or not, but it is conceivable that it should do so—and laid down certain principles; then we should set to work and try to carry out those proposals comprehensively, and it is absolutely certain that half-a-dozen questions, or even 50 questions, would arise which had to be settled, for the settlement of which it would be useless to look to, say, the three paragraphs that this Commission in its report had devoted to the subject.

812. I think the strongest recommendation of the Fowler Committee is to be found in paragraph 60 of their report,* to the effect that the profit on the silver coinage should be kept in gold——?—May I interrupt you and say that according to my view, which I have tried to justify in detail, that did not mean metallic gold?

813. I think it meant solid gold. You sell the silver in the rupee for 42*d.* and you buy that silver for 28*d.*, so you put 14*d.* of profit on the silver into the gold reserve?—Yes.

814. Since 1902 the currency consists of one-third in gold and as to two-thirds in the intrinsic value of the rupee?—Yes.

815. Are you not breaking the currency statute by usuing that gold for other purposes? If you put it into securities without passing a law enabling you to do that, do you not violate the currency law?—No. You ought to remember that it was never proposed that this one-third of the value of the new coinage should go into circulation as currency; it was proposed that it should be held outside the currency as a reserve.

816. As Lord Faber says, the rupee is not protected by the intrinsic value of the silver; it is preserved in its actual entire value by that one-third gold and two-thirds of silver. Was it not, therefore, a violation to use that gold for other purposes than for the currency reserve before a year expired after the report of the Fowler Committee?—When you say it was so used before a year expired, are you referring to the investments?

817. Yes; you cannot make currency investments without putting it into a law. Have you passed a law to that effect?—This is a question, I understand, of the procedure that ought to be gone through before effect is given by a specific scheme to any of the recommendations of the Fowler Committee. If you were arguing or suggesting that statutory provision is required in each case I have not very much to say against it. I think on the whole it has worked very well under the practice of leaving the executive discretion to the Secretary of State and to the Government of India, but I can see a good deal to be said for the view that statutory regulation is better. I do strongly demur to the statement that there was any departure from the recommendations of the Fowler Committee.

818. There was a substantial departure within a year. Is the opinion of public bodies in India worth anything to the Secretary of State or to the Government of India?—Yes. You must realise that the Secretary of State attaches very great importance to the opinion of public bodies, and you will not forget this, that for many years after this action had been taken and was very well known the public bodies in India were very happy, and they uttered no word of remonstrance.

819. Do you remember that between the closing of the Mint in 1893 and the appointment of the Fowler Committee in 1898, the Government of India were under great aggravations to put the exchange at 1*s.* 4*d.*?—Yes.

820. The measures they took, to my mind, militated against exchanges at 1*s.* 4*d.*; it was not the wit of the Government of India nor of the Secretary of State that established the parity at 1*s.* 4*d.*, but it was established by a series of circumstances over which they had no control, and they found themselves astonished that it was established without anybody else's interference. Can you tell me what experience or reason the Secretary of State and the Government of India had to depart within a year from the recommendations of the Fowler Committee?—My answer to that is that for the reasons* which I gave to the Chairman I do not admit that there was any departure.

821. Within a year you commenced changing and chopping and putting it into securities?—No. I maintain—whether rightly or wrongly the Commission must judge—that the overwhelming balance of evidence is that what was done in this matter was in accordance with the recommendations of the Fowler Committee.

822. You had no experience of gold coming in to such an extent as to bring the parity of exchange to 1*s.* 4*d.* until 1900 and 1901, and so soon as you got gold, instead of following the recommendations of the Fowler Committee for two, three, or four years, just to judge what steps you should take, you took the gold as in Alnaschar's dream, and went about putting it anywhere you liked without thinking of any future failure of flow coming along as it did in 1907–8?—Might I just interrupt to say that when the trouble came in 1907–8 the resources that we had put aside with the interest that had accrued, which was very considerable, were available to meet the trouble.

823. I think the first man to suggest it was Sir Edward Law, at least from your correspondence it appears like that. I suppose you do not know, but I know for certain, because I had it from him, that he recanted very much and went to the India Office and said he was sorry for having recommended that course and hoped that the India Office would see the utility of changing their course, otherwise there might be disaster. Have you any knowledge of that change of view on Sir Edward Law's part?—No. It is a difficult question because Sir Edward Law made a certain recommendation which was not accepted by the Secretary of State, and the Secretary of State introduced a different scheme. If there was a change of view presumably it would be that Sir Edward Law finally came to see that the Secretary of State's amendment was an improvement on the original proposition.

824. Lord Curzon, you will remember, did not agree to Sir Edward Law's amendment, for he says in his Minute of 8th July 1900, "I hazard these doubts "not because I presume to set up my financial "authority against that of the hon. member, but for "two reasons; firstly, I am not convinced that they are "necessary for the success of his own scheme; "secondly, I have a natural suspicion of anything "that may tend, in the present early stage of our "currency policy, to cause alarm" (paragraph 4 (5) to Enclosure II. of Government of India's letter, No. 302, of 6th September 1900, Appendix V., page 123)?—May I interrupt you there for a moment? These remarks of Lord Curzon's relate to two proposals by Sir Edward Law which were never carried into effect—proposals regarding the paper currency reserve.

825. Then may I ask you to look at the despatch of the Secretary of State in Appendix V. (page 154), No. 62, dated 26th April 1907, in which he says, "Before dealing "in detail with your objections to the course actually "pursued, I wish to remind you of the circumstances in "which it was decided to adopt it in December last. "The London money market was at that time suffering "from severe stringency, and it was a matter of direct "and immediate importance to India that this should "not be increased, since guaranteed debenture bonds "amounting to 1,795,100*l.* were to fall due between "31st December 1906 and 18th February 1907, of "which it was very desirable that 1,374,600*l.* should "be renewed." Were you not making a mistake when you said that you were able to realise your securities in 1908? The greatest stringency was in December 1906. Supposing that a crisis had come on, what would have been the fate of these securities; would the Secretary of State have dared to sell eight millions securities at that time?—Just let me remind you that the end of 1907 and early in 1908——

826. I am talking of, 1906–7?—I know, but I want to bring this in connection with it. When the sale of securities actually took place, a much worse financial crisis had occurred than is mentioned in the passage which you have just quoted. You must have regard to the relative proportion of

* C. 9390, page 18.

* *Qu.* 559 *supra.*

things. In this despatch which you are referring to, the Secretary of State says, "Between the two "methods of liberating certain money in India, "neither of which was open to any very great "objection, I chose a particular method because it "was less liable to cause a difficulty in the renewal of "certain debentures." You must not build on that foundation the statement that if we had wished to sell securities for a very serious emergency at that time we could not have done it. We were merely exercising in this passage a little common sense, I take it.

827. Are not political considerations and market considerations taken into account when these large transactions are entered into by the Government?—Yes.

828. The Secretary of State was afraid that if this amount of a million and a quarter was to fall due it would hinder him in his financial arrangements if he took away a million or so of money from the Bank of England at that time?—Of course he was. When one has a number of operations to carry out for the benefit of India they are materially helped by an easy money market.

829. Let me tell you my personal experience. In the months of March and June 1908, the rate of discount had fallen to 2 per cent. and Consols had gone up to 88, which was not the case in 1906; so when the Secretary of State and you boast of having been able to realise those large blocks of securities, I think you did not consider what position you were in in 1906 and 1908. He was afraid in December 1906, to put the proceeds of the Council Bills in the Gold Standard Reserve, although the Government of India held the Treasury Bills to be drawn upon, and the Government of India wired to the Secretary of State that they were breaking the law in being asked to do what they were asked to do?—That is a statement of the position that I should not accept. May I just add a remark? If your argument is that Consols in very large quantities would not be easily realisable in a difficult money market, I agree with you.

830. Will you look at the telegraphic correspondence, beginning with telegram to Viceroy dated 18th December 1906, page 149, in Appendix V.? The Secretary of State did an unlawful thing, did he not, in buying four millions of silver to avoid his difficulty and sending it out to India, for which the Government of India had no need?—That I must really demur to. In Enclosure No. 1 to the last despatch, No. 76, dated 23rd May 1913, pp. 207–8, you will see that there was no purchase of silver made in excess of the real requirements.

831. The Government of India said that they were forced to accept four millions sent to them for which they had no need, and which weakened the gold balances that would have been very useful for the next year?—I wish you to note that one part of the Government of India's statement seems to the Secretary of State to be so incomplete as to be almost misleading. The last word on that subject is in a document which has been recently added to the collection in Appendix V. and which perhaps you have not got. It is a despatch from the Secretary of State to the Government of India, No. 76, dated 23rd May 1913. The importance of that is that it does call attention to certain considerable omissions in that statement to which you have just referred.

832. I ask your attention to paragraph 5 of the letter from the Government of India, No. 48, dated 29th February 1912, page 197, in Appendix V.; you will see it said, "The Secretary of State, however, finally "refused to earmark the necessary quantity of gold for "the reason, among others, that he was obtaining 4½ per "cent. interest on his balances; and to enable us to repay "our forced loan from the Gold Standard Reserve he "bought 4,000,000*l.* worth of silver in March 1907. "Our silver requirements for the year had been "carefully calculated by us before that"?—Without going into that statement in detail I say that it is a very incomplete statement that the Government of India made, and that it cannot be properly understood unless you read with it this despatch of the Secretary of State dated 23rd May 1913 and its enclosures.

833. What I am bringing to your notice is what the Chairman has already brought to your notice—certain circumstances of a difficult market, and to show how difficult the market at one time was?—Will you take it from me that I quite agree with you that at certain times the markets in London for the sale of securities are extremely difficult. I gather that that is the point that you wish to make, and I naturally quite accept it.

834. Again taking the Silver Reserve of the Gold Standard, has it ever been used up till now?—Yes.

835. It was used wrongly, as is shown by the reference to the four millions I have just quoted; and it has never been used under necessity?—It has been used on several occasions. As you will see from the statements I have given, rupees have at times been taken from it and at other times put back into it.

836. I suppose that was done once?—More than once.

837. The Secretary of State asked to borrow from the silver of the Gold Standard Reserve, and it has never been repaid?—No—pardon me. Loans have been taken from it more than once, and I think it has been a great convenience to take money from it temporarily and to repay it at different times. If you care to have those particulars look at Statement A., Appendix III., page 97, and you will see three footnotes referring to three several loans at different periods.

838. After that chopping and changing we come to the crisis of 1907–8, and during that crisis at one time it seemed both to the Secretary of State and to the Government of India that the exchange might break down?—It seemed, you mean, to the mercantile public?

839. No; when the Government of India proposed to give 10,000*l.* a day ——?—Pardon me; let me put the true facts. We never had any doubts that the exchange would be maintained. I think that the Government of India at that time thought that it could be maintained with less support than proved to to be actually required. That is the only significance of your incident of the 10,000*l.*

840. Before this crisis came the mercantile public of India were alarmed and suspicious, and questions were asked in the Legislative Council whether there was sufficient gold to maintain the exchange. Sir Edward Baker replied that there was sufficient for all possible contingencies. Then came the crisis, and the first result was that only 10,000*l.* of gold was asked for by a man from the Accountant-General of Bombay, and the Accountant-General said, "Why do you ask for it?" And he wired to Sir Edward Baker, and Sir Edward Baker said, "Gold is not for export; it is only for internal purposes." That was the first move, was it not, that the Government of India took for safeguarding the exchange?—I should not in any way wish to criticise what the Government of India did. I think that in this hoarding up of their gold they did not show the best possible judgment, and that the Secretary of State took that view is indicated by the telegrams that you have in Appendix V. But that has little bearing on the question whether we did ultimately maintain exchange when this crisis occurred.

841. I do not think the Secretary of State said that?—I do not know whether you have seen this rather interesting telegram. The Secretary of State telegraphed out—"Please inform me if it is the case, as "reported here, that you have informed the exchange "banks that you will not give gold for export while "you continue to give it for internal purposes," and the Government of India gave a kind of explanation. I would draw your attention to the telegrams dated 21st and 27th November 1907 on page 164 of Appendix V.

842. I want you to look at the Secretary of State's telegram of 28th November 1907 in Appendix V. in response to the Government of India in which he said it is a temporary measure to which he does not bind himself, which alarmed the whole Indian public. That was after receiving the advice of the Indian Government to sell or buy 250,000*l.* a week. My object in bringing this to your attention is that fortunately at that time the Secretary of State was in a good position, otherwise, if he had been afraid to sell securities,

what would have become of the Indian public and the exchange? Will you look at the telegram in Appendix V. dated 6th December 1907 (page 166), from the Secretary of State to the Finance Department, "Banks should be told that this communication is made "because you recognise advantage of letting them "know your views and intentions, but that it does "not convey a definite pledge, and that Govern- "ment reserves discretion to act as it thinks best "in any future case on consideration of all circum- stances then existing." So it was not an absolute promise?—Let me put it to you that in 1906, 1907, and 1908, the Secretary of State and his Council and his advisers were all the same persons, and the policy that you see in these different years is the same policy all through.

843. The Secretary of State at last acted very boldly and saved the situation, and made a precedent for future guidance; I admit that. But our discussion is about the strength of the Gold Standard Reserve. You had at that time 23 millions in gold; you say 25 millions is quite sufficient, and yet the Secretary of State was not quite satisfied?—What you say is quite true. At the time that that telegram which you have just read was written, we were on the point of em- barking on a course which was really unique, I think, in the financial history of the world; we were a little cautious in the language that we used so as not neces- sarily to make it a binding precedent for all future generations. Anyone else who was doing so huge and important a piece of business at very short notice would equally, I think, if prudent, have used those qualifying words. To all intents and purposes, as you very kindly said, we did the bold thing, and we did it on a very large scale; so that the history of that period does not indicate that we were hampered by insufficiency of means.

844. The Secretary of State has not guaranteed exchange at 1*s.* 4*d.*, I think?—No.

845. If the Secretary of State does not guarantee exchange at 1*s.* 4*d.* should India not take her own course in making the exchange as permanent as possible, and sacrificing everything to that because the breaking of the exchange means the ruin of India?—As a matter of fact, although one does not want exchange to go down, supposing that the exchange did go down by a few 32nds for a short time, neither the Indian Empire would come to an end nor would Indian merchants be very seriously injured. I do not wish to minimise the importance of maintaining exchange, but I do submit that you should not exaggerate it, you should not speak as though India would be ruined supposing that the exchange were 1*s.* $3\frac{3}{4}$*d.* instead of 1*s.* $3\frac{29}{32}$*d.*

846. Do you accept this, that the only currency and the right currency, whether standard or not, should be that by which you can transfer your wealth from one country to the other with only the loss of exchange and the cost of insurance and commission?—We have been trying all these years to build up the Indian currency system so that it may be as you have described.

847. You remember that exchange went down from 1*s.* 4*d.* after the closing of the Mint to 1*s.*?—It was to a little over 1*s.*

848. Do you know what that meant—reducing our wealth to one half?—Not to one half.

849. By about 25 per cent.—16 to 12?—The value of the rupee went down.

850. If I had my fortune to transmit to this country, if I had taken my money out at 1*s.* 4*d.*, I should have had to bring it back at 12*d.*, and what had I done to suffer that loss, and yet Lord Morley speaks of things being fairly right; we do not want "fairly," we want it absolute. We want to put the exchange on a basis which the power of the Secretary of State or anybody else could not shake. After the crisis the Government of India have taken the lesson to heart, and that is indicated in the despatch of the Govern- ment of India, No. 89, dated 1st April 1909, page 168, in Appendix V. It is just a despatch with which every chamber of commerce and commercial community in India would agree; but that despatch is flouted by the Secretary of State, and when they asked for 25 millions liquid gold the Secretary of State allows one million, and that not in gold but to be lent on securities. If you do not agree with that state- ment how would you say the Government of India's recommendation was treated by the Secretary of State?—It was considered with great care and a reasoned reply, and I venture to think a convincing reply, was given to the arguments put forward in it. What was said in this despatch that the Secretary of State sent on 2nd July 1909 (*see* Appendix V., page 175), has to some extent been modified since; but I do not think there is a word or a sentence in that which the present Secretary of State would not agree with. Also, I notice you mention that the remarks of the Government of India were flouted; I do not think you will find a single sentence there which was not highly courteous and appreciative in its method of expression.

851. Yes, very courteous, but if I ask as an equal co-partner for 25 millions sterling I am treated as less than a clerk if you only allow one million in all, and that not in the way I wanted it. Is that very cour- teous? Of course, the language can be as courteous as possible, but was that right?—It is very difficult for me to argue these points, and I do not want to take up the time of the Commission in giving my alternative summary of this despatch from the Secre- tary of State which you rather describe as giving one million when 25 millions were asked for. But I do want to make it clear that I do not accept your summary as being an adequate statement of the contents of this despatch of the 2nd July 1909.

852. Are the Government of India representative of the opinion of India?—Yes. If, however, you are putting this point, that in these matters the Secretary of State is called upon unhesitatingly and without qualification to do anything that the Government of India may put to him, then I say that that is not the constitution of India, and I also say that if he had acted on that principle all through, many serious mistakes would have been committed. I also draw your attention to the fact that at different times the Government of India have held different views on particular matters, and if your view were accepted one year the Secretary of State must do so-and-so because the Government of India wish it, and another year he must do the opposite because the new Government of India does not wish it; that is not the way in which the Empire can be carried on.

853. Does that mean that London and the London financial world is too much represented on the Secretary of State's Council?—I think if I wished, and I say this in the friendliest spirit, I might take exception to that question as being on a matter which is very much outside my sphere; but since you have raised it, it gives me the opportunity of saying that for many years I have had to do with the Finance Committee of this office and with the London financiers who take a certain part in the deliberations of the Finance Committee, and if you mean to convey that there is any difference between the interests which those men attempt to serve and the interests which the Government of India attempt to serve, then you are mistaken. We are all working to the best of our ability to serve the same interests.

854. All the arguments in the correspondence in Appendix V. that you have put in are all "probably" and "fairly," but in a matter of the exchange, where it is the life and death of the country, should not the security be absolute?

855. (*Sir Robert Chalmers.*) Is not that the whole object of the policy?—The whole object of our policy is to give security of exchange, and at the same time I should add this, not to sacrifice other interests, which are at least as vital, to that particular one.

856. (*Sir Shapurji Broacha.*) If, for all that, India is willing to lose interest, if her Chambers of Commerce are willing to lose interest, and if they want liquid gold, what does the million and half of ultimate profit matter—they do not want it?—That is really important. The effec- tiveness of a Gold Standard Reserve depends primarily on its amount. If by a certain course of action you convert a reserve of 16,200,000*l.* into a reserve of

18,500,000*l.*, you have to the extent of that 2,300,000*l.* given greater security to exchange. That I think is obvious and elementary, and that is what the Secretary of State has done by this policy of earning interest. It may be right or it may be wrong for a variety of reasons, but it has undoubtedly added to the security of the exchange value of the rupee.

857. If this country were to go on at the same rate of expenditure on the Army and Navy as before the Boer war they would have largely reduced the national debt by this time, or paid it off; is it not that they are spending the vast amount they are for an absolute security and not for a comparative security; and is not this subject that we are dealing with a matter of the same kind and even of greater importance to India?—I do not think we can get very far in this discussion, but I can sum up, I think, the difference between us, and then perhaps we might leave it to the Commission. You would say, as I understand you, that 16,200,000*l.* in gold gives you more security than 18,500,000*l.* in securities, because you would say that although the amount is less the certainty of having that when you want it is more. I should say, and I hope I am right, that 18,500,000*l.* of securities is better than that, because the advantage of the amount is something clear and tangible and the realisability is sufficient for any reasonable need. But whether we are right or wrong, I do not think, if I may put it, that we shall get much further than that; you have put very clearly the difference between us, and I think we might now leave it.

858. No, I am going further. If this were done in the interests of the London market would not the London market be better off by allowing India to accumulate gold here?—There is one thing to which—and you will not mind my saying so, will you?—I always take exception, and I think it is my duty to do so. Whenever it is suggested that the affairs of the India Office and of the Indian Empire are conducted in the interests of the London market, I always venture in respectful language to take exception to it, because it is not only contrary to the fact, but it conveys a very harmful impression.

859. Let us take this gold reserve in another way. Supposing England were engaged in a great war and all the securities had gone down; I do not know whether you will admit or not that if England were engaged in a great war, within a fortnight the Bank of England would have to stop payment of gold?—I have often thought, I may say, of the problems arising out of that. The question what would happen in the event of a suspension of specie payments is a subject that is very familiar to me.

860. How, then, shall we sell either short-dated securities or long-dated securities? Is it not a fact that two millions more of gold in the Bank of England now would have a greater effect on the rate of interest than 50 millions and more of securities? I am dealing with liquid gold and gold in securities, and I am talking of nothing else?—I understand fully up to now the arguments in favour of having metallic gold, but I think you are developing a new argument which I do not follow.

861. If India were allowed to accumulate gold—and India is the only country that could accumulate gold—would it not be the saving of the Empire at the time the Bank of England had no gold left?—My own view is that it is not the business of India to save the Empire. The business of India is to look after its own affairs.

862. Supposing we have 50 millions, then I do not think the Bank of England would be under the necessity of going to France to borrow three millions?—I have the greatest respect for the Bank of England, but it is not our business, unless it happens to coincide with our interests——

(*Sir Shapurji Broacha.*) We are considering our interests, you know. I am a broker of over 49 years' experience, and I could not get an advance on a lakh of rupee paper at one time. We are always spending millions in preparing for war, but those millions are for one day only, and what we are now preparing for is that one day in India when the Secretary of State will not pay our losses; that is certain.

The witness withdrew.

At the India Office, Whitehall, S.W.

FOURTH DAY.

Friday, June 6, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

863. (*Sir Shapurji Broacha.*) Will you refer to paragraph 7 of the letter from the Government of India to the Secretary of State, No. 89, dated 1st April 1909, page 170, in Appendix V.? It is there said, "The point is one "on which informed public opinion in India is singularly "unanimous. We are frequently asked why we strain "after interest on the reserve, which is the basis of "our currency system, and, consequently, one of the "chief pillars of the credit of India; and it is pointed "out that other countries are careful to retain the "ultimate foundation of their credit in bullion . . . "Moreover, we conceive that the position of the "Government of India in the markets of the world "would be much stronger as the possessor of a large "store of liquid gold than as the possessor of a "corresponding capital in consols or similar securities. "In the former case, the Indian Government might in "an emergency be powerful to help the market; in the "latter there would always be the potential danger of "their wishing to realise at an inconvenient season." That being an opinion expressed in 1909, the Government of India hold the same opinion still, do they not?—

They hold the same opinion as regards the advisability of having a large part of the reserve in gold. Whether they hold all the opinions that are expressed in the passages you have read, I do not know; it is quite possible that the reply of the Secretary of State to this despatch has converted them on some points.

864. (*Lord Faber.*) By "gold," in the reply you have just given, do you mean metallic gold?—Yes; I may say that I always mean metallic gold when I say "gold."

865. (*Sir Shapurji Broacha.*) Do they hold the same opinion about not diverting any of the profits on coinage to public works?—Their opinion has always been in that matter, since 1907, that at a certain time the profits on coinage ought to be used for public works. In 1907, as you will see from the correspondence in Appendix V., they thought that that could be done when the reserve exceeded 20 millions; now the scheme is to do it when the reserve exceeds 25 millions.

866. I am asking whether there has been a change of opinion during the four years since 1909; I am not talking of 1907?—At the present time the Secretary of State and the Government of India are unanimous in holding that, on the whole, the best course is to let the reserve accumulate to 25 millions before any portion of the coinage profits goes to public works.

867. Then the Government of India have not changed their opinion within the last four years?—No. There is just one point to add in order to make that answer quite correct—I am not sure whether 25 millions was the figure that they mentioned in 1909.

868. Lord Faber asked you whether you would not exhaust all the gold if all the rupees in India were tendered. So long as we have a gold standard the Currency Office is not bound to pay gold against rupees, is it?—That is so.

869. Therefore they have to take the rupees to the exchange banks for foreign buyers?—Do you mean that a holder of rupees has to buy gold?

870. If he wants gold he must go to the banks that finance the export trade?—If I follow you rightly, you are on the question whether, if every holder of rupees who wanted gold tried to get it from the Government, the Government would be able to satisfy all demands, is that it?

871. No, the Government has the power to refuse?—Actually the practice of the Government has always been to give gold freely from the Paper Currency Reserve in exchange for rupees, and I interrupted you because I do not wish you to give the impression that the Government holds in reserve a power of economising its gold when occasions for giving it out arise. The Government has not really held that power in reserve.

872. There are more often rupees in India than gold?—Certainly.

873. If all the rupees were presented there is not enough gold to give in return?—Quite so.

874. Against that we are on a gold standard, but have not a gold currency?—Yes.

875. If there was a gold currency, then it is possible that the currency for issue would fail if all the silver were tendered?—Do you mean that if there was a scheme under which the Government undertook to give gold for rupees without limit, then that scheme might break down through a deficiency of the supply of gold? Of course I agree with that—it is obviously correct; but I do wish to repeat what I said in answer to Sir Robert Chalmers, that no one, so far as I know, in the whole history of the world has ever set up a scheme under which such an obligation would be undertaken by the Government.

876. There is no fear of that happening so long as we are on a gold standard and not on a gold currency?—I think that we are at one. I will not dwell on a point of language, but I think that what you mean commands my humble concurrence.

877. (*Sir James Begbie.*) The gold standard reserve is peculiar, is it not, to the Indian currency system?—Not quite. I think you will find that some of the eastern colonies, certainly the Straits Settlements, have a gold standard reserve, in a small way. I think the Philippines have one. In addition I know, because I was a member of the Committee that helped to establish it, that in a very humble way West Africa has a similar reserve.

878. I was speaking more of the old gold standard countries in the world; none of them have it, have they?—No; in fact the gold standard countries in the older sense of the word scarcely have such a reserve, except so far as the reserve of the Bank of England is in a sense a gold standard reserve.

879. That is different to the gold standard reserve in India, which is accumulated from the profits on the coinage?—Yes, as regards its origin it is entirely different. I meant as regards the purpose that it serves, that is to say, maintaining a stable exchange with other countries, there are points of resemblance.

880. Do you think the Committee of 1898 anticipated there would be a coinage of rupees on the scale that has taken place when they recommended a special reserve of this sort?—I do not think that one can answer that question, and I may put to you the difficulties. On the one hand it is quite clear that they did contemplate coinage in the future, because they provided what should be done with the profits of such coinage; but as far as I can gather, they probably thought there would be less rupee coinage than has actually taken place, because they expected the gold would go into the currency rather more freely. I give that merely as an opinion, and I can quite understand that others who were present at the meetings of the Committee, or who read the report, may take a different view.

881. As a matter of principle, do you think it advisable to have a token coinage on such a vast scale as in the case of India?—No. I think that if the proportion of the token coinage to the gold currency gradually falls it would be a good thing. But I should like to say—and this is equally important to my mind—that I think it would be a very evil thing that the Government should take steps to divert the feelings of India with regard to the currency metal that they prefer into any other direction than what they would naturally take.

882. But you would not object to them encouraging the use of gold?—I do not like to be too much of an optimist, but I think at the present time they do exactly the right thing. They practically allow anyone to choose the metal that he prefers, subject only to this, that at certain times they cannot give gold when, owing to adverse circumstances, the stock in the Reserves runs down. Except on those special occasions they allow everyone a free choice, and I think that is the right policy.

883. I think you said yesterday you would not undertake the legal obligation to pay gold for rupees?—That is so.

884. There is no such obligation?—No.

885. Is that not a reason for encouraging the use of gold coins, and also restricting as far as possible the issue of fresh rupees?—No doubt you have read through these various papers. The policy that has been pursued consistently has been not to coin rupees beyond the amount that is necessary; when I say "pursued" I mean what has been recognised as the ideal policy. In the early years of this system, in 1900, as you know, that was carried to a very unfortunate extent. You have read the history of how the Currency Office at Calcutta had to close before the right time because there were not enough rupees. Since then there has been one occasion when it may fairly be held that there was an excessive coinage of rupees, in 1907, and in order to prevent anything of the kind recurring, a better scheme, and a more economical scheme of coinage has been laid down and is now followed.

886. Do you refer to the Secretary of State's despatch of 18th February 1910, No. 25, in Appendix V. (page 185)?—Yes.

887. Am I correct in understanding that the profits on silver coinage are usually coined into rupees?—I think that is inevitable really. You buy so much silver and you coin it into rupees; then you find that a certain portion of it represents the equivalent at 1*s.* 4*d.* per rupee of the amount spent on purchasing the

silver, and then there is so much left over, and that is the profit.

888. And that is coined into rupees?—Yes.

889. If you coin the profits into rupees do you get any profit on that coinage?—No. Let me put an extremely simple case: You buy 100*l.* worth of silver; if you are making no profit that silver would coin simply into 1,500 rupees, but you find actually that it coins, say, into 2,500 rupees—I am giving an illustrative figure merely. That extra 1,000 rupees is the profit; and having been once realised it does not yield a further profit at compound interest, as it were. That is a profit that has once been realised. Then the only question which arises is in what form are you going to keep it.

890. It seems to me that if you coin the profits into rupees in this way you are not collecting all the profits on the coinage which you ought to get. Let me give you an illustration: supposing a million sterling, we will say, passes into India in sovereigns and is presented at the Currency Department: you pay out in exchange for those sovereigns a crore and a half of rupees, so that all that you have to do in order to replace the rupees is to buy enough silver to coin a crore and a half, is that not so?—Yes.

891. The difference between the cost of the silver to produce that number of rupees and the gold received is the profit?—There are two ways in which one can regard it, and I do not think there is anything really between us. I began with the assumption that you spend a given sum, say, 1,000,000*l.*, on buying silver, out of which you get, first of all, the crore and a half, which represents the million, and then, say, another 75 lakhs, or whatever it may be, and then I said the 75 lakhs is the profit. I think that you differed from me in this way, that supposing all one wants to get is 150 lakhs net, then your way of putting it would be to spend not 1,000,000*l.* on buying silver, but 700,000*l.* and then you would get your 150 lakhs, out of which, say, 300,000*l.* worth, 45 lakhs—of course I am making up the figures as I go along—would represent the profit. Although they look a little different at first, in essentials our two methods, I think, are the same, except that they deal with different quantities.

892. My point is that when you coin that difference between the cost of the silver and the crore and a half of rupees, the reserve does not get all the profits that it ought to get?—According to what seems to me the simplest way of looking at it, the coinage itself is a purely mechanical operation. When you have completed your coinage and coined the right number of rupees, then you make up your accounts and see that so much represents the cost price of the silver that was used, and so much extra you hold in rupees, and that represents profit.

893. Take it another way round. In the case of a million sterling going into India do you use the whole of that million to buy silver with?—No, I think, if I may say so, that that is where a little difficulty arises in the way of our completely understanding one another. You do not say: I have had a million sterling tendered to me and I will use that in order to buy silver. What the Government says is: Our stock of rupees has gone down to a certain level which is not a safe level, because it does not provide us with enough rupees to make sure of the convertibility of our currency notes. Therefore, from time to time the Government increases its stock of rupees by the purchase of silver. But whether it buys silver at any time, and how much it buys, does not depend on such operations as you have mentioned as, for example, the tender of a million sovereigns in exchange for rupees; that is some time previously to the coinage.

894. Will you kindly take my point of view and tell me this: If you do use the whole of the million sterling to buy silver, you coin that silver into 2½ crores of rupees, roughly?—Yes.

895. Then you get the same profit on the whole operation, do you not?—I should say—and I think that this is the only method by which one can consider it without a possibility of error, that you take your 250 lakhs, consider how much of it represents the equivalent of cost price, and how much is surplusage, and that surplusage is the profit.

896. And that profit goes into the reserve to be held against the total amount coined by that sum, so that the reserve gets, we will say, 300,000*l.* profit, which you hold against the coinage of the 2½ crores?—No, I do not think you are right there. Taking the figures that you have taken, 100 lakhs out of the 250 go into the reserve. You mentioned the figure of 300,000*l.*; I do not know if you meant it. The amount that goes into the reserve is the equivalent, on the illustrative figures that you took, of nearly 700,000*l.*; perhaps that is where we have been at cross-purposes.

897. I do not think so. The cost of the silver to replace the million sterling in silver rupees is about 700,000*l.*, so that you get the difference between 700,000*l.* and 1,000,000*l.* to go to the reserve, which is 300,000*l.*?—That is on the supposition that you spend 700,000*l.* only.

898. Yes; so that the reserve then holds 300,000*l.*, not against the crore and a half, but against 2½ crores of rupees?—I still think that we are at cross-purposes through taking different figures. When you speak of that 2½ crores of rupees it all follows on the assumption that the 1,000,000*l.* has been spent to buy silver. I gave an alternative assumption at one stage that 700,000*l.* had been spent, but if you assume that the million has been spent and that it produces 2½ crores of rupees, then the result is that 150 lakhs, the crore and a half, is treated as the equivalent of the gold or sterling money that was spent, and then the remaining 100 lakhs is the profit, and of course, as you know, that at the usual rate of conversion comes to nearly 700,000*l.* I think, if I may so put it, because I am sure one does not want to dwell too long on an intricate point, I may say that our gold standard reserve gets every rupee that can possibly go into it with one exception which I will mention to you, if you care to have it—I do not know if you are interested.

899. I only want the general principle?—The only thing in which, perhaps, we have not treated that reserve as generously as we might is that when bills on London were sold by the Government of India, the Government of India only put in 15 rupees for each £ that the Secretary of State disbursed, whereas they ought to have put in on some views 15 rupees and a fraction because of bills having been sold at 1*s.* $3\frac{29}{32}d.$ Apart from that, the reserve gets every anna that can possibly be given to it.

900. Do you not think it is a disadvantage of a system of coining profits into rupees that the currency is unnecessarily diluted with token coins?—No. As regards the preamble of your question, I do not see how you can avoid, as you say, coining profits into rupees. You cannot coin a single rupee without making a profit on it. It is incidental to the whole system that if you coin one rupee a year, about five annas would have to go into the gold standard reserve. That I merely say in passing. On the question of diluting the coinage unduly, I venture to disagree with you rather strongly. In principle we are at one, that is to say, we recognise that it would be a most serious danger if a coinage of rupees took place beyond what is necessary. I think every reasonable precaution is now taken to keep down the coinage to what is absolutely required. If at any time anyone suggested to the Secretary of State a further precaution against over-coinage, and it was a reasonable suggestion, I am sure he would welcome it, as our object has been all through to limit the rupee coinage as much as necessary.

901. In paragraph 7 of Appendix III. you suggest on page 89 that "it will be an excess of caution to "hold in gold in England more than 5 millions; more "especially if, as I hope will be the case, the present "practice of holding a portion of the paper currency "reserve in gold in England is continued." Your idea is, I think, to use the gold for the support of exchange?—Yes.

902. You are, of course, aware that the reserves of the paper currency are governed in India by statute?—Yes.

903. Is there any statute providing that the reserve is to be used for any other purpose than to redeem notes?—I cannot point to a particular section of the statute which provides that it should be used for any other purpose; but the whole scheme of the statute is one which allows gold to be held, and to be held in England, obviously with the intention that at certain times the Government of India may substitute rupees in India for gold in England, so as to give the reserve a utility beyond its primary purpose of redeeming notes. I should like to add there, on a point of principle, that when one is dealing with such huge sums as are in the paper currency reserve, sums which amount, if you include securities, at the present time to over 40 millions sterling, it would be a great mistake to take the narrowest possible view and to say that you shall not use this great sum for any of the purposes that it can serve in addition to that of securing the convertibility of the notes. If one did take that narrower view one would, I think, be departing from the practice of most or many of the most financially progressive nations. I believe that Japan and the German Government, and other Governments whose practice deserves a great respect and consideration, do somewhat enlarge the use that is made of the paper currency reserve.

904. Does the Indian statute, that is, the Paper Currency Act, bind the Secretary of State, who holds the London portion of the reserve? Is he subject to the provisions of that statute at all; is he obliged to carry them out?—That is rather an interesting constitutional point. I do not think there is very much substance in it, and I will tell you why. The Secretary of State in theory might act as though the statute did not exist—that is your first point, which I agree to; but if he did so, and if the gold disappeared from the paper currency reserve, then it would be obligatory on the Government of India, who are bound by the statute, to make good the reserve in some other form. The Government of India have to hold so much, x rupees minus any amount the Secretary of State holds, and if that minus comes to be nought, then the Government of India have to hold the full x.

905. As a matter of fact the London portion is not subject to any statute, is it?—I agree with that, but, at the same time, I am anxious not to let it appear to be a more important fact than it is.

906. Is it not possible that the fact that it is declared to be held in England in support of exchange may be misunderstood in India?—Would you say in what way it would be misunderstood?

907. For example, you say that you hold the reserve here to support exchange; in India it is held for the redemption of the note, and people might begin to talk and say, Here is so much gold held outside of India for a different purpose to what it is held in India. Might that not affect the credit of the note issue?—I think actually the time has come when—it will no doubt be done when this Commission issues its report—a rather fuller statement is desirable for the instruction of the public in India as to the way these various reserves are managed. I imagine, if I may say so without presumption, that one of the advantages of the Report of this Royal Commission is that it will probably contain the desired information, and contain it as coming from the best possible source. Until that is issued I agree that there may be some misunderstanding.

908. In paragraph 8 of Appendix III., page 89, one of the reasons you give for the opinion that there is, *primâ facie*, an overwhelming balance of advantage in holding in London the main part of the reserve is that payments of trade balances due by India to other countries have to be made in London; so far as this reserve is concerned, remitters would have no option, would they, but to settle through London?—No. Of course they have the advantage of buying a bill on London, and then they have the usual method of buying from London a bill on Berlin or Hamburg, or whatever they wanted.

909. Quite so, but there is no option to the people in India to settle the trade balance with any other countries than through London?—I think that is correct.

910. If the reserve was held in India, and gold was issued in place of bills on London, the remitters would not be obliged to settle the trade balance with other countries through London, would they?—Do you think that is so? Supposing a remitter was anxious to send 50,000 sovereigns from India on the assumption, which you are evidently taking, that he would get the sovereigns in India from the gold standard reserve, I should say the probability is that he would send his sovereigns by the P. & O., and would have them either transhipped to the ultimate foreign destination, or would buy in London with the sovereigns a bill payable at the city where the debt has to be paid. I think that is the ordinary course of business having regard to the fact that London is the financial centre of the world.

911. Still, you might have gold going from India to Austria or to France?—Yes; you might have a very slight advantage in that way. I do not wish to be obstinate, but I do not think that there is very much substance in that advantage.

912. It is a great advantage, is it not, to have a currency system that works automatically?—Yes, as far as any currency system can work automatically; and I may say that the Indian is as automatic really as any currency system.

913. You say it is?—Yes, I think it is. Certainly the object of all the changes that have been made in the development of the Indian currency system has been to make it as automatic as possible.

914. Take the case of 1908–9, when you had a very large accumulation of rupees in the gold standard of India; these rupees were drawn upon in London by means of council bills, were they not?—Yes.

915. I think you began to draw council bills at a very low rate of exchange?—You know the limit; 1*s.* $3\frac{29}{32}$*d.* is the lowest.

916. I am talking about bills drawn in London on India?—Yes, and I say 1*s.* $3\frac{29}{32}$*d.* is the lowest rate at which the Secretary of State ever sells his bills on India. I think I mentioned that at an earlier stage.

917. In this case you began to draw under 1*s.* 4*d.*, but you cannot give us the exact figures?—That is quite right.

918. Do you consider that that was more automatic than if gold had been allowed to go into India?—I do not think that there is any difference as regards the automatic working of the system. Certainly I do not think that the rate makes a difference. Supposing that the gold had gone to India and rupees had been issued in exchange, that would, in a certain sense, have been an artificial transaction, the Government undertaking to give rupees from a certain stock that it has in exchange for another form of legal tender money. Up to a point that is artificial, but which is no more artificial than the things that have to happen, say, in a full gold standard country. Then you suggest, as I understand, that the fact that the bill was sold, say, at 1*s.* $3\frac{29}{32}$*d.* instead of 1*s.* $4\frac{1}{16}$*d.* per rupee adds a new element of artificiality; that I do not follow.

919. In the case of gold, gold would not go to India, I take it, unless at cost price, which would be something over par?—Of course you can never tell. When gold is on its way from Australia to London it sometimes is diverted to India at a very low price to the owner.

920. That makes it artificial, does it not?—What I was putting to you is that what is from some points of view regarded as a most natural arrangement is in itself artificial up to a point. I am assuming that gold belonging, say, to the National Bank of India, which is on its way from Australia to London, is, owing to circumstances, delivered at Bombay and exchanged for rupees. The point I am putting, and it is a very simple point, is that that is about as much or as little an artificial transaction as the selling of bills by the Secretary of State to liberate rupees.

921. Still, do you not think that the sale of council bills at a low rate competes with gold?—It does to some extent; but then you must remember that the primary object, though not the sole object, of selling council bills is to enable the Secretary of State to

bring home from India his revenue requirements for the year. At a certain period of each year he is dominated by that; and it is then quite properly not his object to stimulate gold to go to India at the possible expense of his having a shortage in his drawings. Of course you, being so familiar with Indian finance, know the conditions are very different, say, in April, May, or June, from what they are in December or January.

922. I quite agree. In the case of the Secretary of State drawing to lay down funds for his own treasury what you say is quite correct, but the case before us is the case where the Secretary of State drew bills in London against the gold standard reserve in India, and he began to do so at very low rates of exchange. The point I wish to bring out is whether in doing so he did not prevent gold from going to India and was thus competing with gold, because, if so, then it was not automatic?—I am going first, if you will allow me, to draw your attention to some matters of fact. You speak in very general terms about drawing bills against the gold standard reserve at a low rate of exchange.

923. He began to do it, but he did not continue it?—That is so. I was rather anxious to put in this. The greater part of the bills drawn to restore the gold standard reserve in London after that crisis were drawn in the year 1909–10, when the average rate of exchange, according to these figures* of Mr. Newmarch which I have before me, was 1*s.* 4·041*d.*; but a certain amount, the early bills to which you refer, were certainly drawn in 1908–9, when the rate of exchange was 1*s.* 3·931*d.*

924. That was the average rate?—Yes.

925. So there must have been sales below that rate?—Yes. I will not do the arithmetic in my head, but the average rate is obviously something between 1*s.* $3\frac{29}{32}$*d.*, which is the lowest price, and the highest price, whatever it was. In both halves of 1908–9 the average rate was much the same; in the first half it was 1*s.* 3·930*d.*, and in the other half of the year 1*s.* 3·938*d.*

926. Do you not think that those sales of council bills at those rates not only caused a loss of premium on the bills sold, but also a loss in the rate at which bills were sold to effect the ordinary remittances?—I am not quite sure that I followed the first half of your question. I think the first half of your question was to this effect—that by selling a little under 1*s.* 4*d.* the Secretary of State did worse than if he had received gold in India for the gold standard reserve.

927. That is not my point. He was anxious to get the gold for the standard reserve, but instead of allowing the gold to go into India he began to sell at those low rates, and therefore he lost the premium on the sales which he might have obtained by waiting; is that not so?—Yes; on the other hand, either he or other interests in India would have incurred a loss if he had reduced the sales, and then the gold standard reserve had been replenished first of all by the transmission of gold to India at a considerable cost, as you know, for freight and so on, with the ultimate result that when it has to be used in order to strengthen the exchange the gold would again have to be shipped from India to London, or to Berlin, or to Trieste, at a further wasteful expense of money. If one is considering the economy or otherwise of any of these transactions which involve the sale of council bills or the shipment of gold, one has to consider the effects in a very wide circle, because one effect leads up to another effect.

928. Still taking 1909–10, when council bills for about nine millions were sold against the gold standard reserve, do you not think that the fact that such a large amount of council bills were sold prevented a greater premium being obtained on the ordinary bills against the Treasury balances?—It may have had a very slight effect, but the great cause which keeps down the price in a year of heavy demand like 1909–10 is what I may summarise as cheap gold going from Australia. I need not enlarge upon that; I think you are familiar with the fact that gold goes from Australia very cheaply at times. If it is worth delaying you——

929. I do not think we need go into it further?—I was only anxious to mention how much gold actually did go to India in competition with council bills in 1909–10. It does bear somewhat considerably, I think, on your suggestion that the large sale of council bills was the cause of the premium not being as high as it might have been.

930. You have told us that the use of council bills for effecting remittances to India saves the loss (in the shape of payments for freight and insurance and loss of premium on council bills) which would be incurred if the remittances were made by shipments of gold; that statement, I suppose, applies to council bills drawn on the gold standard reserve?—Yes.

931. Is it not the case that the present system, as a whole, in the absence of a gold currency, really increases the freight and insurance charges on the movements of specie in connection with the currency? When you save the cost of remitting the gold from India by drawing council bills, the cost of remitting silver to take the place of gold is incurred, is it not?—That I would most strongly contest, because it rests on the assumption that if the Government acted rather differently from the way in which it does act, the people in India would use less silver. That, I think, is opposed to all the probabilities and all the known facts.

932. I think you misunderstand me, that is not my point; my point is that the present system really incurs a greater expense in the way of freight and insurance than a gold currency would?—But the greater expense, I understand, arises from the fact that silver has to go to India.

933. Yes?—Supposing we had a gold currency, one has to consider whether less silver would be used in India, and in order to consider it one has to put a very definite meaning on the words, "If one had a gold currency." Actually I should say that we have a gold currency at present, only the people of India, for a number of reasons, do not use it very freely. There is no one in India who has 15 rupees, who, if he desires a sovereign, cannot get it.

934. That is not quite what I am trying to get at?—I am anxious, if I may, to dwell on this point: the people who discuss this question often put the query, why does not the Government give India a gold currency?—I am anxious to say that in my humble judgment, that is, I will not say, a meaningless question, but I think it comes very near to being a meaningless question because the Legislature has declared gold to be a legal tender. The Government gives all the encouragement that it can to put into circulation such gold as it possesses, and therefore up to the requirements of the people of India there is a gold currency, and the obstacle to gold being more used as currency is not that the Government of India fails to encourage it, but that the people of India prefer other forms.

935. When council bills are drawn on account of the gold standard reserve, and they are drawn at a premium, does the premium go to that reserve, or how?—It does not. I mentioned to you before that that is one thing of which the gold standard reserve, if it had a voice, might complain. The practice is, as I explained to you the other day, not to draw a specific bill against the gold standard reserve, but to appropriate to the gold standard reserve so much, which will probably be in round hundreds of thousands of pounds, from the total proceeds of council bills. Then the Government of India take out of the gold standard reserve rupees equal to 15 times the amount of sovereigns. If anyone urged that they ought to take not 15 times but a rather different amount, then I have nothing to say against it, but I do not think it is an important matter.

936. The importance, I think, is in the fact that you put it down here as a reason for the location of the reserve in London that freight and insurance charges are saved?—I would remind you that if you save the premium you have saved it, whether it goes to the gold standard reserve so as to be held up in that reserve, or whether it goes to the general taxpayer so as to reduce the burdens on him. It is always a good

* *See* Appendix VII., page 232.

thing to save it, into whichever pocket the taxpayer puts it.

937. Am I to understand that the profit of the premium goes to the general taxpayer where there is a premium?—I believe so. Mr. Gillan will perhaps say whether that is his recollection, but my recollection is that all these adjustments as between England and India with respect to a gold standard reserve are effected at the rate of 1*s.* 4*d.* and not at 1*s.* 4*d.* plus or minus a fraction.

938. (*Mr. Gillan.*) It goes into the profit on exchange?—That is my recollection, that it goes into profit on exchange, which is a head of the general revenue.

939. (*Sir James Begbie.*) Taking it the other way about, if the bills are drawn in India on London at a discount, how would that work out?—It sounds very greedy to say so, but there is a profit either way. When bills are drawn by the Government of India, instead of taking from the public 15 rupees for each sovereign that is to be given out, they take 15·1 rupees, or whatever the fraction is, and then I am afraid the Government of India put that 0·1 rupee under the head Mr. Gillan was just mentioning, and use it for the advantage of the general taxpayer. I imagine that both the Secretary of State and the Government of India attach no very great importance to that, and if anyone thought it ought to be dealt with differently I do not think any obstacle would be raised. I remember, I may say, that years ago, when I was Financial Secretary here, I thought of raising the question, and my only reason for not doing it was that I was busy with much more important things, and I thought we might leave the Government of India uncriticised in that matter.

940. The reason frequently given for selling council bills is that it is in the interests of India to prevent the withdrawals of gold from London?—That is a reason, but a minor reason.

941. Is it not a serious disadvantage to India to be in the position which occurred in 1908, namely, to be obliged to borrow and at the same time to sell securities belonging to the gold standard reserve on a very large scale?—Of course there is a disadvantage in that, but if one were considering the matter fully, one would compare it with the advantages that this system possesses and also with the disadvantages that would arise from any other alternative system. So far as your remark goes, I agree with it that to have to sell securities when you are borrowing is a bad thing.

942. An objection which you have indicated in paragraph 9 (C) of Appendix III. (page 89) to the reserve being held in India is that when the gold came to be shipped to London a delay of about three weeks would occur?—That is so.

943. In 1908, when the reserves were largely drawn upon, were the drawings in the form of bills?—They were in the form of bills.

944. And only bills?—Yes. The question whether transfers would not be a better form is, I might say, a very reasonable question, and it is worth mentioning here, I think, that this sale of bills in 1908 was the first of its kind. Although the India Office, I think, has some reason to be pleased with the general results of what was done it is not so foolish as to think that it reached perfection at once, and no doubt on any future occasion some things might be done differently and better.

945. At any rate the difference in time between bills and shipments of gold would be about a week only?—That is all.

946. Do you think if the reserve were held in India there would be risk of the gold being used otherwise than to support exchange?—I think that there is a risk, but whether it is a great risk I do not know, and you probably are in a much better position to form an opinion. It seems to me that if the Government issued very large sums in sovereigns on the understanding that they were to be shipped, it would be very difficult for it to set up a kind of detective agency to make sure that the shipments did take place.

947. You do not think the difficulty would be insuperable, do you?—That is a practical question on which your opinion is worth much more than mine.

948. When was the practice of issuing gold to the public in exchange for rupees instituted?—I think it was done as soon as the Government of India began to have gold in 1900, in fact I dare say you remember there was some criticism based on the view that Sir Clinton Dawkins was over-anxious to issue gold and rather forced gold on the public. I think a little less vigour was displayed after 1900, but in essentials the practice has continued from when the Government of India first received gold.

949. Have any regulations been laid down for carrying it into operation?—I think there are orders in the most general terms to officers in charge of currency centres that they are habitually to give gold to the public in exchange for rupees when the public desires. Then, on one occasion at least, as you know, in 1907 or 1908 the operation of these orders was partly suspended under a scheme which the Secretary of State thought over-cautious. Subject to that suspension in 1907, I think the whole thing is governed by a very few sentences.

950. It is a rather important point when the rupee reserves are very high, is it not? Would you issue gold to the public when your reserves were laden with rupees?—I think that if the conditions of trade were good and there was no immediate prospect of a fall in exchange, the right policy would probably be to issue gold to the public freely, even when there was not much gold left; because when you are speaking of the reserves being very full of rupees you imply that there is not much gold in them at such a time. Even at such a time my feeling would be in favour of letting the gold go freely unless there were special reasons for holding it up.

951. I thought that you rather complained about the way the gold went out in India in 1907–8?—No, I do not complain. My view—I do not know if other people hold it—is that we have two gold reserves which serve two different purposes. I am very anxious that the difference between those two purposes should be recognised, and that the gold standard reserve should not be used for the same purpose as the paper currency reserve of gold, that is to say, that it should not be dissipated in good times. Subject to that, it seems to me a reasonable thing that the gold from the paper currency reserve should go out as it did in 1907–8, only in my memorandum I have said that the sudden efflux of gold was probably not a support of exchange. I merely made that remark as I wished the fact to be noticed.

952. You say you can give reasons, if necessary, to show that if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below the gold export point, the rate at which they ought to be issued must be at the established rate of 15 to 1?—Yes.

953. It would be very useful if we could have those reasons submitted?—They are exceedingly simple. You may assume that there is a certain fixed cost of sending home gold from India to England; you can call that $\frac{1}{8}d.$ per rupee, but of course one knows that it is rather doubtful. If a bank applied to the Government of India for gold and got it at 1*s.* 4*d.*, and then sent the gold home, the effective rate of exchange from the point of view of that bank would be 1*s.* 4*d.* minus $\frac{1}{8}d.$, that is to say, 1*s.* $3\frac{7}{8}d.$, and so long as you kept the exchange at that rate or above it, you would have maintained the exchange. Supposing that instead of doing that the Government of India issued its gold, say, at the price of 1*s.* $3\frac{3}{4}d.$—one can take that figure—and then the bank had to send the gold home and still pay this $\frac{1}{8}d.$ for expenses; then, from the point of view of the bank, the effective rate of exchange would be 1*s.* $3\frac{3}{4}d.$ minus $\frac{1}{8}d.$, that is to say, 1*s.* $3\frac{5}{8}d.$ By instituting this different rate of 1*s.* $3\frac{3}{4}d.$ the Government of India would simply have failed to support exchange; they would have put exchange down on the figures that I have given you to 1*s.* $3\frac{5}{8}d.$, and the only way they can keep it within the gold points is in the way that I have mentioned. I hope that that is clear to you?

954. Quite. Does not that same argument hold good the reverse way about? When you issue rupees in India, if you issue rupees in India below the equivalent of 1*s.* 4*d.*, then you destroy the standard, do you not?—No. My view, which I tried to develop very briefly in answer to a question of Sir Ernest Cable, is that you keep up your standard when you keep the exchange within what they call the gold points. What I was putting to you was that if you let the exchange fall below the exporting gold point, then you have failed to maintain exchange. I hold with equal firmness that if you keep it within the gold exporting point, then you have not failed to maintain exchange. I think I may say that economists generally, who deal with this sort of subject hold the same view as far as I know.

955. Regarding the amount in reserve you said that the statistics of 1907–8 illustrate the effects of as severe a period of adversity as it is reasonable to expect?—I think so. I know that is a very large proposition, but I put it forward with very fair confidence.

956. Have you taken into account the great advance made since that year in the import trade?—I quite agree with you that if 25 millions, which is the figure that has been mentioned, was suitable in 1908, and only just enough, then the gold standard reserve ought gradually to increase; and in any scheme which I have put forward provision has been made for such a gradual increase.

957. Yes, but you put considerable emphasis on the statistics of 1907–8?—I merely wish to use them, not as showing the final amount that the gold standard reserve ought to be allowed to reach, but as a basis for reasoned discussion on the subject, because I feel very much that there has been a vast amount of discussion on the subject on the basis of mere guesswork.

958. I would like to ask you also if you have taken into account the fact that people in India are now being attracted by investments in Europe?—Do you mean that there would be exports of capital for that particular purpose?

959. Yes?—I must confess that that is a point which has not occurred to me. In any case, I would maintain that you should take the standard of 1907–8 as your basis; then you can make such additions as changes, either in the import trade or in the habits of investors, and so on, necessitate.

960. Do you recognise that with the growing wealth of India and the vast additions to the currency which have taken place in recent years, the tendency of interest and discount rates has been in a downward direction?—Yes.

961. And that if that prosperity continues, the rates of interest must inevitably cheapen still further?—Yes.

962. With the possible result that a strong demand may arise for further investments in England and elsewhere?—I recognise that you do not put that in any controversial way.

963. Certainly not?—Therefore I need not be so guarded in my answer. I am not sure at the moment that a great demand for sterling investments is likely to occur at a period of bad exchange.

964. It might precede it?—Yes.

965. Or it might follow it?—Yes. I should have thought, generally, that investments would go on, subject to conditions which would not be very much affected by a period of bad trade, or of unfavourable exchange, except that bad trade would, so far as it had any effect, rather check foreign investments by Indian holders.

966. Such investments, if made, would act on the exchange, would they not?—Yes.

967. Have you considered this point—that the high prices of commodities exported have had an important effect on the favourable balance of trade?—No doubt.

968. And through that balance on the additions to the currency?—That is so.

969. May it not be that the great additions to the currency necessary to the conduct of trade in consequence of high prices may be found to be superfluous when a cycle of low prices is experienced?—Yes. I think it is very desirable that India should be able to contract its currency when prices fall, or when, for any other reason, the currency becomes redundant. I think you will remember that certainly from 1898, and I think from an earlier period, the principle has always been recognised that the great advantage of our currency system that we have set up is that it does enable such a contraction of the currency to be effected.

970. You have based your estimates with regard to the reserve on the events of 1907–8; is it altogether safe to rely on those estimates in view of all these different developments that I have mentioned to you?—No. As I have said to you already, I should take the experience of that period as a very valuable foundation, and then work out, so far as one can, what allowance has to be made for changed conditions; but I would not, as so many writers on the subject in India have done, disregard the one solid and valuable piece of experience that we do possess.

971. But you look forward to a time when the profits on coinage or a portion of them will be available for capital expenditure on railways?— A portion of them I should say.

972. Would there not be a danger of coinage being then undertaken for the sake of the profits that would be available for such expenditure without regard to the purely currency position?—No, I do not think so. I think the Government of India are so conscious of their enormous responsibilities in respect of the currency, that they would never be so foolish as to coin beyond what seemed to be required, because if they did so, sooner or later they would have to pay the retribution, and might have to pay it in a very unpleasant form.

973. I understood you to say yesterday that, when you remarked that you would be able to show how the purchase of silver is regulated, you had in view the arrangements laid down by the Secretary of State in his despatch of 18th February 1910, Appendix V., page 185?—Yes.

974. So far as I understand the position, there is nothing provided there as to the method by which the desired stock of rupees on a given date is to be obtained Is it the case that when silver coinage has to be undertaken it is carried out either by buying silver with gold taken from the paper currency reserve or by selling council bills?—There are various ways of paying for silver. The simplest way is to pay from the India Office balances, whatever they may happen to be. That was adopted, as I dare say you know, in 1912 when we began with very large balances. We bought seven million pounds' worth of silver, and we very naturally used a part of our large balances to pay for the silver. We then sent it to India where it was placed for the most part in the paper currency reserve, and notes were issued to the Government of India against it. That was really a transfer of balances from England to India. That, I should say, is the normal method of paying for silver. When the Secretary of State's balances are not so high, there are other methods that might be adopted. One, which I thought very clumsy, which was adopted years ago, was to have boxes of sovereigns sent home from India to England. Another method which now takes its place is to withdraw from the paper currency chest in India the amount required to pay for silver against replenishments of the paper currency reserve in other forms. Those, I think, you may take to be the two methods—either payment from general balances or from the paper currency reserve.

975. When you take gold from the paper currency reserve to buy silver in order to coin rupees, that is not an addition to the total currency, is it?—No.

976. You simply substitute the silver for the gold that you take out?—That is quite right.

977. Therefore there is no addition to the currency?—That is so.

978. But when you utilise council bills to get money to buy silver and you buy silver with the money and coin it, that is an addition to the total currency, is it not?—It is an addition in the first place to the balances held by the Government of India.

979. In London?—No, in India. Just let me go through this; I did it before, but it is very important.

The Secretary of State has so much money in London which he has drawn from India; then he spends a certain sum of it and sends out silver to the Government of India, which they coin and put into the paper currency reserve. Then against it the Head Commissioner of Paper Currency issues notes to the Government of India so that the gross circulation of notes is for the time increased, but the extra notes are held by the Government, and it is a matter of experience whether those notes or the rupees against them go into circulation, or whether they are held up in the Government reserve. So far as they are held up, as they may be and as they were on the 31st March 1913, in the Government reserves, they certainly do not affect the active circulation.

980. I am afraid I do not follow that. We are talking about council bills being drawn in London for the purpose of buying silver for coinage purposes. Last year, for example, you drew council bills against the paper currency reserve, I understand, for the purpose of getting money to buy silver with?—I am always anxious not to overstate differences of detail, and not to delay you over such matters, but perhaps I was wrong in not questioning the opening words of your question. One did not sell council bills in order to produce so much money and to buy silver with the money so produced. The Secretary of State sells council bills so many per week according to trade requirements and according to his own estimated requirements, and so on; but he conducts what one may call general sales, not sales for specific objects. So that it is more correct to say, as I put it, that if the silver for the extra rupees is not bought with gold taken from the paper currency reserve, then it is bought from the Secretary of State's general balances. I put it that way, which is, if I may say so, the most correct way. You put it slightly differently as though council bills were sold to produce the money. I thought the difference between us was so small that it was not worth correcting; but perhaps it is more important than I realised.

981. (*Mr. Keynes.*) Will you put it this way—that when more silver is coined against council bills, the Government of India's capacity to cash council bills is increased, and when they take advantage of that capacity then the circulation of rupees is increased?—Yes, that is perfectly correct, but whether it entirely answers Sir James Begbie's question I do not know. I preferred, because I thought it helped Sir James more, to put it in this way—in a negative form. Supposing at a certain time the Secretary of State has increased the gross circulation of currency notes by sending out silver in the way I describe, and if then there is no demand for the money represented by the additional notes held by the Government of India, then what has been increased is not the active circulation, but only what you may call the stagnant part of the circulation.

982. (*Sir James Begbie.*) The total currency, whether in reserves or in actual circulation, has been increased?—Yes. I am anxious to insist on this, that when there is no actual public demand for the extra rupees or the notes issued against them, then it is the stagnant part of the circulation, that is to say, the amount in the reserve treasuries and so on, that is increased, so there is no danger of what is popularly called inflation.

983. But the total currency is increased, whether in reserves or in actual circulation?—Yes, it is.

984. Take the case of last year; I allude to the time before the decision was come to to buy silver. Immediately before that time very large amounts of gold were held in India?—Yes.

985. The currency reserves were overflowing with gold coins?—Yes.

986. And the silver reserves had fallen?—Yes.

987. Then came this decision to add to the coinage; why was the decision made to add to the coinage instead of substituting silver for part of the gold held?—Where could you have got the silver from?

988. You could have used the gold you had to buy the silver?—I can assure you that that is not so. At the time of active demand for currency, what happens to the unfortunate Government of India is that the bankers rush into the currency offices and other offices with enormous amounts in sovereigns and say: "In "accordance with the notifications issued on the recom- "mendation of the Herschell Committee we demand "that for every sovereign you shall give us 15 rupees." The Government of India—and I have heard that other Governments with similar currency systems have the same trouble—is very hard pressed sometimes to provide enough rupees for the public, in response to its insistent demand for rupees against gold. If at a time like that you say, Why did not the Government give out its gold and get in rupees from the public, the answer is that the public wants exactly the opposite thing done; the public clamours for rupees and forces gold on the Government.

989. As I understand the position, at the early part of last year the rupee reserves had fallen to what you considered a low point, and it was necessary to replenish the silver portion?—Yes. May I just interpolate that it had fallen to a low point as far as I recollect, because the public had forced gold on the Government and taken rupees instead?

990. If gold had come in in such quantities and depleted the silver reserves, should not the gold which came in have been used to buy silver?—I see no advantage in that. The chief effect of what was done was that the Secretary of State's balances were reduced, and the Government of India's balances were increased, which I think was a good thing, because, other things being equal, I am sure you would agree that it is better to increase the Government of India's balances at the expense of those held in this country. Except for that, and for a certain saving through not transmitting the sovereigns which, under your scheme, would have been transmitted, I do not think that there is any material difference between the method that was actually adopted and what you suggest.

991. The difference, I think, is that in the case I suggest there would have been no addition to the total currency, but in the way that the operation was carried out, by the sale of council bills, there was an actual addition to the total currency?—I will assume that the stagnant part of the currency—you will forgive me for insisting on that——

992. I do not wish to stop you in any way, but I recognise that the reserves and the actual circulation are one so far as the total currency is concerned?—If your method (if I may call it your method, just for brevity) had been carried out, the difference would have been, first, that India would have had less gold in her reserves, which would have been, I think, a net disadvantage; secondly, that the Secretary of State would have had a very much larger balance at the end of the year than he actually did have, and that, I think, many people would consider also to be a disadvantage.

993. Is that so? I thought that council bills were drawn, to a certain extent any way, for the purpose of providing money to buy silver with. Is it the case that the silver purchases came out of the Secretary of State's balances?—The silver was paid for out of the general balances. I am very anxious to insist on that, because I am not sure whether I made it quite clear that there is no specific drawing of bills for a particular object.

994. Were not the council bills sold against the paper currency reserve last year?—I have not my first memorandum (Appendix I.) here; but I may say that what happens is that occasionally out of the total proceeds of council bills so much is set aside into the paper currency reserve merely to replenish the balances of the Government of India. I do not know if you know that system. Shall I explain to you what happens? Supposing that in a certain year the Government of India, out of its Treasury balances, can meet 20 millions of bills and transfers, and does so; then, if in the last month of the year there is a trade demand, the Secretary of State, wisely or unwisely—in my opinion wisely—meets it and sells perhaps another three million pounds worth of telegraphic transfers and bills. The Government of India, on the hypothesis I have taken, have not the means in their Treasury of meeting

those bills, so the Secretary of State would transfer the proceeds of the bills into what we call, in our official language, his paper currency chest in London. Against that, the Head Commissioner of Paper Currency would issue to the Government of India 4½ crores of notes, and those notes would be used to meet these bills. at any rate they would strengthen the general resources of the Government of India so as to enable them to meet these bills. That is what we mean when we speak of drawing against the paper currency reserve; and I am afraid we have misled you by causing you to think that certain specific bills are drawn against the paper currency reserve.

995. In the statement issued by the Government it is put down that seven millions odd was drawn against the paper currency reserve?—That is a brief phrase which is capable of being misunderstood. What it is really intended to convey is that of the total bills that were sold, the proceeds of a certain amount of them were used in order to enable the transfer of sovereigns to the paper currency chest to be made in London.

996. I think that the statements I have seen did not provide for any credits to the paper currency chest in London?—Perhaps I might ask Mr. Gillan, I do not understand that the transaction can be other than what I have described.

997. (*Mr. Gillan.*) It must have been paid into the currency reserve in London?—(*Witness.*) Sir James Begbie thinks it is not so. I think that probably what has happened has been that some brief and technical phrase has been used which has given rise to misunderstanding. I would like to make complete the informasion I was endeavouring to give to you, Sir James. Sometimes, when bills have been sold, the proceeds are used to buy securities, like an investment for the paper currency reserve.

998. (*Sir James Begbie.*) I think it was stated to be for coinage?—I think what was intended to be conveyed is what both Mr. Gillan and I understand; and I cannot conceive any other meaning or any other operation.

999. When council bills are drawn, there is nothing to distinguish bills drawn against the Treasury balances from bills drawn against the paper currency reserve, is there?—No.

1000. Would that not be desirable, in your opinion?—I do not know. I do not think there would be any necessary advantage in it from the point of view of the purchaser of the bill. What he wants is a bill, pure and simple, and what the Secretary of State and the Government of India want to do, is from time to time to appropriate the proceeds of bills and say, so much shall be added to the general Treasury balances, and so much shall be added to the paper currency reserve so as to ease the Government of India. May I just illustrate it? It is rather important as you have raised it. I want to illustrate the convenience of making these appropriations in round sums. I read out yesterday, in answer to a question of the Chairman, a summary of some telegraphic correspondence relating to an incident where it was suggested that the interests of India had been subordinated to the interests of the London money market.* If you remember, the correspondence ran somewhat in this way: The Government of India say, "Please transfer half a million to-morrow or a few days hence to the paper currency reserve." The Secretary of State says, "I will if it is necessary," and finally the thing is done. That kind of transaction, making the transfers or appropriation in round sums of half a million or a million, is incomparably more convenient to the Secretary of State and to the Government of India than selling these bills one by one specially appropriated to particular funds, or specially payable from particular funds. A further difficulty in the way of your proposal is that a Bombay bill is, as you know, payable at the Bank of Bombay, and all that one can instruct the Bank of Bombay to do, I think, is to meet the bill from the general balances of the Government which are lodged at that bank.

1001. Am I to understand that when you require to buy silver for coinage purposes, it is not material whether you use the gold you have or whether you draw council bills or take it out of the general balances?—I do not think there is any question of principle involved. I think that *primâ facie* when the Secretary of State has large balances, and has no immediate use for them, it is better for him to use them, or some of them, to pay for any silver that may be required.

1002. Coming now to the Indian branch of the reserve, you say that for special reasons the normal amount of six crores has often been departed from; do you propose to submit particulars of the instances of departure and the reasons for it?—I have already given, though perhaps it has not been noticed, the instances of departure and practically in all important cases I have given the reason. If you will look at Appendix III., page 97, statement A, column 7, you will see that at the end of 1906, after the silver branch had been built up to 2,300,000*l.*, it suddenly dropped in the next quarter to 69,000*l.* Then if you look at column 5 of the same table you will see the explanation of that, namely, that the whole of that money and some money besides, had been taken by the Government of India as a temporary loan at 3½ per cent. interest. The same thing happened, but one need not go through it in detail, in 1908, as you will see from a footnote, and it also happened in December 1909, as you will see from another footnote. I think that is the essential part of the history, that these loans were taken and repaid except that I ought to add that the repayment during 1910, 1911, and 1912 was delayed. You will see at the foot of column 7 that the normal amount of four millions was not restored until the quarter ending 31st March 1913.

1003. Do you regard the balances held in 1910, 1911, and part of 1912 as temporary withdrawals?—I think that is the way to regard them. I never like to maintain that the Secretary of State has been more consistent than he has been. Occasionally he has wavered (and he has not been the only waverer in that matter) as to the complete desirability of maintaining the Indian branch of the gold standard reserve. I do not know whether he is now completely convinced that it ought to be kept up at six crores—I think that he is, but I do not know that he would endorse the argument in favour of it that I put forward. This diminution in 1910, 1911, and 1912, I think, ought to be regarded as evidence of his period of uncertainty.

1004. Were there any special reasons for the departure from the normal amount for such a long time?—I have mentioned what one may summarise as the psychological reason; and a further reason is that there were so many rupees in the paper currency reserve that the need for increasing the stock in the gold standard reserve was *pro tanto* rather less. But perhaps the answer to what I think is your real question is that there is no evidence of deep and subtle policy in this temporary diminution. I think that is what you really wanted to know.

1005. In several places throughout these papers you lay stress on the risk of injury to Indian interests by the sale of bills in London against the paper currency reserve in India necessitating the earmarking of gold at a time when the Secretary of State was borrowing in London, or at a time when the London market was stringent, or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade. This seems to be a most important point, and it appears to me to call for a detailed elucidation. Would it be convenient to give particulars of specific instances in the last four years where the influence mentioned controlled the sales of council bills?—I do not think one could give a specific instance. Generally speaking, the Secretary of State sells his bills, as you know, subject to not interfering with the flow of gold to India. Then I mention in various passages of my memorandum that if he completely changed his policy and greatly reduced his sales of council bills, and greatly increased thereby the flow of gold to India, probably there would be a stringency in the London money market which would affect Indian trade. But is it not difficult, if not impossible, to give specific instances of what would happen in the event of a different policy being adopted?

* *See* Appendix V., pp. 136-7.

1006. That is not quite what I was suggesting. I would like, if possible, if we could have had figures before us, to substantiate the idea that these things were done in the interests of India and to prevent any harm being done to India?—You say these things were done. What I did was to describe the practice that is followed in the belief that India would be harmed if a different practice were followed. I am quite prepared to defend the view that that belief is well founded, but when you ask for specific instances you are asking for specific instances of the effect of a policy which has been rejected. I am very anxious to meet you in every respect, but that is my difficulty at the moment.

1007. You do not think then that you can more clearly show to us that all these things of which you tell us have been done because you considered it was in the interests of India?—Of course, that almost comes to the question of one's personal attitude towards the business that is entrusted to one. I will not speak about myself, because it would be egotistical, but I am quite sure, to speak of the members of the Council of India, who have a considerable part in this business, that their object is to seek the interests of India in these matters, and having known them all intimately for many years, I think it is a very great misfortune that some writers on our affairs have put forward the other view. I am not sorry that you put these questions, because the other view has been put forward with such extraordinary vigour which can be seen through a very thin disguise. In paragraph 37 of Appendix I. you may have noticed there was a writer in "The Times" who said that the Joint Stock Banks' representatives habitually subordinated the interests of India to the interests of their banks, but that no suggestion was made against their personal integrity. I daresay you noticed that rather striking passage. Of course, you could not help noticing that if Joint Stock bankers who are paid handsome salaries to look after the interests of India, used their position in order to subordinate Indian interests to Joint Stock Bank interests, that conduct would not be consistent with personal integrity. I can only say that I have repeatedly discussed those kind of questions about council bills and so on with practically everyone who has had to deal with the financial affairs of the India Office, and my impression, indeed my firm conviction, is that the interests of India, as they have been understood by the persons concerned, using their best intelligence, have been the predominant consideration.

1008. (*Mr. Gillan.*) I wanted first to ask you a question or two about the coinage of silver to which Sir James Begbie has referred. I think we have got already what you wish to say, but I want to bring it to a point. The currency system of India is very frequently regarded as a manipulated or managed currency system, is it not?—Yes.

1009. And it is inferred, or I suppose it might be inferred, that the Government actually determine the amount of coinage?—That is implied in the criticisms.

1010. It would be more correct to say, would it not, that what the Government have to do is to estimate the requirements of currency?—Yes.

1011. Suppose that at any time they ran short, what would happen?—What would happen would be that they would find a difficulty in converting their currency notes. I think that would be the first result.

1012. They would have to refuse to meet demands for rupees?—Yes.

1013. Which would be a very serious matter?—Yes.

1014. On the other hand what would happen if they over-estimated and over-coined?—Then what would happen would be that superfluous rupees would be in their various reserves, but, as I was putting to Sir James Begbie in a slightly different connection, not in actual circulation. You cannot force rupees into circulation.

1015. That was my point precisely. The Government of India have no means of forcing rupees into circulation if they are not desired by the public?—Quite so.

1016. You mentioned in your replies to Sir James Begbie just now that the question is very often put, "Why does not the Government give India a gold currency?" I want to bring that out more particularly in connection with the Fowler Report. Sir Shapurji was asking you yesterday about their recommendations with regard to the constitution of the reserve, and whether it should be in gold or in gold securities; and what I want to bring out now is a recommendation with regard to the constitution of the currency—I think we can get at that. You suggested, did you not, that there is often an indefiniteness as to what is meant by a gold currency?—Yes.

1017. I want to bring that point out and I think I can do it in this way: Supposing we begin with England; putting aside the subsidiary coinage which is not to the purpose, there is in the English system a definite obligation to meet any form of currency, whether it is notes or cheques, in gold?—Yes. It is a definite but curiously limited obligation in a sense, as the Bank of England only undertake to pay their notes at one or two centres, so that if you are at Bournemouth or Ramsgate and have a £5 note, you may find some little trouble in cashing it.

1018. But, subject to that limitation, what I have said is accurate?—Subject to that, but it is a considerable limitation.

1019. If you go to other countries mentioned, to the Philippines, West Africa, and so on, the limitation of the duty to give gold goes very much further, does it not; for instance, in France you have got a very large silver coinage which is an unlimited legal tender?—Quite so. The French currency system, I think, is, to all intents and purposes, the same as the Indian currency system, and they are both known by the well-known designation of the limping standard.

1020. (*Mr. Keynes.*) That phrase is never used of India, is it?—But surely it is applicable in exactly the same way.

1021. (*Mr. Gillan.*) It is not exactly the same thing. What I wanted to bring out is that you may take France, Germany, and the United States and you will find a very distinct limitation in all of them of this obligation to give gold?—That is so.

1022. So if India is half-way in the matter of currency between gold and silver it does not in any sense occupy a very special position?—Certainly not.

1023. It is in the position of the great majority of countries?—It is certainly in the position of many important countries.

1024. You do not say the great majority?—One would have to go through Denmark, Norway, and Sweden.

1025. Very well; we will leave it at that. It is really a question of England having an absolute standard?—Quite so.

1026. Now I want to refer you to the Fowler Committee. They say, in paragraph 54 of their Report,* "Looking forward as we do to the effective establishment in India of a gold standard, and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption"; and they go on to say in the next paragraph, "Under an effective gold standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they could constitute a legal tender; indeed for some time to come no such limitation can be contemplated." Then in paragraph 59 they say that a system which had been found sufficient in France and the United States was sufficient for India?—That is so.

1027. Would you agree that critics of the Government policy who appeal to the Fowler Committee and say, They recommended a gold currency, therefore let us have a gold currency now, have either to show that conditions have changed since that report was written or to explain what exactly they mean by a gold currency?—Yes, and how far what exists now in the way of a gold currency fails to conform to the ideas that can be traced in the Fowler Committee's Report as to what a gold currency meant.

* C. 9390, page 16.

1028. They said at the time in paragraph 55, "Existing conditions in India do not warrant the imposition of a limit"?—That is so.

1029. Therefore, it has to be shown that the conditions as they now exist do?—When you are speaking of a gold currency you are speaking, I think, of an obligation undertaken by or imposed on the Government to give gold in exchange for rupees.

1030. I want to ask you whether you do not consider that that is a condition essential to a gold currency in any full sense of the term?—You and I are, I think, at one as regards substance; but I think we should express ourselves differently. I should say that a gold currency means the absence of any discouragement and the presence of a certain amount of encouragement to the use of gold for the purpose of effecting exchanges; that that exists in India and that therefore India now has, so far as it desires it, a gold currency. You put it rather that a gold currency means the undertaking of an obligation by the Government to give gold in exchange for other forms of currency. I think one might also say that if that is what a gold currency means, the United Kingdom does not possess it and will not possess it until it undertakes to give a sovereign in exchange for twenty shillings, which it does not now undertake to do.

1031. I am not differing from you in any sense. Supposing someone comes to us and says, You have not got a gold currency at present; it is for them to show what further action they require us to take, is it not?—Quite so.

1032. Is there any action which suggests itself to you apart from this undertaking of a definite obligation to give gold on all occasions?—No, I cannot conceive that any action other than that really undesirable action is possible, and it is for that reason that I rather insist on the point, I hope not tediously, that India has a gold currency at the present time, so far as it wants a gold currency. I am only anxious to say that that is my position and that I do not take the position which might be taken, namely, that India does not want a gold currency or that India ought to have it but has not got it. I say that the nearest brief proposition that you can lay down consistently with the truth is that she has got it. Shall I be interrupting you if I put in one figure which very greatly interests me and which bears on this subject? I noted down—and I think it may surprise some members of the Commission—that the absorption of sovereigns by the public in the 14 years from 1899–1900 to 1912–3 was 64,815,000*l.*, while the absorption of rupees during the same period was 66,750,000*l.* The reason I want to put that comparison in and at this point in your examination is to confirm what I say, that when India requires fresh currency now, judging by this period of 14 years, she requires practically half of it in gold and half of it in silver.

1033. (*Mr. Keynes.*) Is the table from which you are taking these figures printed amongst the memoranda that we have?—The absorption of gold is shown in the statement attached to Appendix VI. on page 216, the absorption of rupees is not—I have added in manuscript in my copy these figures.

1034. You do not suggest that that is a measure of the amount of gold in circulation, do you?—No. I am sorry to interrupt Mr. Gillan in order to answer Mr. Keynes's question. That of course is one of the difficulties. You pour gold into the circulation, and then India may or may not use it as a circulating medium. I think it is important, in considering how far the Government has done what it can to encourage gold, to note that in the last 14 years it has put in circulation, whatever may become of it, practically as much in gold as in rupees.

1035. (*Mr. Gillan.*) Is your view with regard to the internal currency simply that the only duty of the Government is to see that people get the kind of currency that they want?—Yes.

1036. And that it is not necessary for the maintenance of the parity of exchange that it should be a gold circulation?—Quite so.

1037. That is a very important mistake which is sometimes made, as you recognised?—It is very important indeed.

1038. Now about the external currency, the currency that is required in the adjustment of foreign trade. We had some evidence yesterday about what happened in the crisis of 1907–8; is it correct to say that when the Government started this currency policy they were thinking mostly of their own requirements, that is to say, of the amounts that they have to discharge at home?—When you say "when they started this currency policy" are you thinking now of 1893?

1039. Up to 1907, say?—Do you mean when they established the present currency system?

1040. I do?—Then my answer is: Quite so.

1041. Did not that point of view rather colour the action of the Government when they first faced this crisis of 1907?—Their action was coloured partly by what you say and partly by the influence, which has always been a very powerful influence, of the Report of the Fowler Committee. The Fowler Committee spoke in very generous terms of Mr. Lindsay, who was the advocate of the policy that was followed in 1907–8; they spoke very generously of him as a contributor to the subject, but they very faintly praised his scheme of the Government undertaking to sell exchange on London at a time of adverse trade, and they spoke with equally faint interest or praise, I think, of a similar scheme that was put forward by Mr. Henry Raphael. So that in 1907–8 when we did sell some sterling exchange we were not only departing from the previous ideas of the Government, as you mentioned, but also from the ideas that bulked very large in the Fowler Report—it was a new departure.

1042. It came into force by stress of circumstances, the Government recognising that they must maintain exchange, not only in their own interest but in the interest of the trade of the country generally; would you say that?—I would put it a little more generously and say that the Government had the wisdom to perceive that it was a wise course to take. But I think it comes to the same thing.

1043. Sir Shapurji said yesterday with regard to this point, that the Government had never undertaken any absolute obligation to meet a future crisis in the same way?—That is so.

1044. If our reserves were exhausted, if we failed to meet a crisis, then the exchange might drop, not as you said yesterday by ⅛ or ¼ below 1*s.* 4*d.*, but we will say to 1*s.* or any point short of the bullion value of the rupee?—What you say opens a very large question. The particular points I want to mention are first of all as regards the possibility of a fall in exchange and the point to which exchange might fall; and secondly as regards undertaking a general obligation in much wider terms than have ever been used. I think that both in the utterances of those who speak with authority on this subject and in actual fact one could find much support to the view that even if we had a very bad trade year the fall in exchange would not be nearly so serious as you suggest. In the remarks which Lord Courtney made before the Fowler Committee, which were very interesting remarks, and came from a man who was very eminent in these matters, the general outcome was that the 1*s.* 4*d.* exchange was founded on the rock, and even if you had no gold standard reserve or any special supports it would not be seriously disturbed. I think that is over-optimistic myself.

1045. We are speaking of a crisis, you understand, not of the ordinary fluctuations of trade?—I know. But supposing you had a crisis such as occurred at this time, 1907–8, with no extraneous support for exchange such as the gold standard reserve; then it is a matter of speculation how low exchange would go. My own view is that it would probably not go down as low as the figure you mention. That is rather an incidental remark and I wanted to make it, but if I may I will go on to my other remark now. I recognise—I am not sure whether the Secretary of State in Council and the Government of India would do so equally—that a currency system like ours tends to evolve in the direction of the undertaking by the Government of more obligations than the Government of India has under-

taken so far. Of course the ideal climax to a system like ours would be that the Government should undertake whenever exchange fell below a certain point to sell exchange on London at a fixed price, and I can see great advantages in it. Provided it is done at the right time but not immediately, I mean provided one waits until one has a big enough reserve to enable it to be done, I do not think there will be any great danger in it. I think one might look forward to it as something to be done as the crown and consummation of the system.

1046. I have only one or two questions that I wish to put about the paper currency reserve, which I believe is a subject that will be dealt with more particularly by Mr. Newmarch?—Yes.

1047. What I wanted to get from you is the place of the paper currency reserve in the general scheme of Indian currency. The idea of the paper currency reserve in India is to a certain extent that 14 crores, I think, are issued against securities, and after that stage every note must be covered by gold or silver coin?—Yes.

1048. There is no provision in the system for any sort of elasticity?—No.

1049. None at all?—Except that you may regard this as providing elasticity—that the circulation of notes can be suddenly increased in India by an addition of gold in England to the Secretary of State's portion of the paper currency reserve. There is, therefore, a little elasticity.

1050. At the same time the requirements in India for an elastic currency are very marked?—Very.

1051. That is owing to the seasonal variation?—Yes.

1052. Do you think it would be worth while considering some alternative system of the paper currency reserve in India?—If you will not unduly shock commercial opinion in India I think it would be an enormous improvement if arrangements were made by which additional notes could be issued at suitable times, especially in the busy season, either uncovered altogether, or what I should prefer because it would look better against security that can suitably be held for a very short time. Supposing there were first class bills which became due to be paid off three or four months after the date on which they were received, then by putting such securities into the paper currency reserve and issuing notes against them, there would be a possibility of elasticity without any risk worth considering, in fact, humanly speaking, without any risk at all, and I think trade and other interests would benefit by it. You will notice that in my Note on the Gold Standard Reserve I mention that, I think it was in paragraph 26 of Appendix III., page 95, but I am afraid I yielded to a tendency to conservatism against which I usually try to fight.

1053. I do not want to develop that further at present; I only wanted to get your general view upon it. About the reserves, it is true, is it not, we must look on them generally in the aggregate?—There is a great deal to be said for that, but you can go a little too far in that direction for reasons which I was mentioning yesterday, I think, and which you doubtless remember.

1054. I do not want to go into it too much. The point I was leading up to is this: you have got in paragraph 4 of letter from India No. 89, dated 1st April 1909, which you will find in Appendix V., page 169, a statement of the reserves amounting altogether apparently at the beginning of the crisis of 1907 to about 24½ millions; and I wish to ask you what are the similar figures at the present time? You have got about 20 millions in the gold standard reserve, have you not?—I will give you the figures as best I can, and then I am sure you will allow me to correct them in the proof. For the gold standard reserve you will find the correct figure in Statement B. of Appendix III., page 98. It is not quite so high as you mention; it is 18½ millions. The currency gold in England is a little more than 6 millions, and the Government gold held in India would be at the present moment a little under 18 millions.

1055. I thought it was a little more, but I did not quite know. What have we altogether?—Allowing for errors of memory that would be about 42½ millions.

1056. Then to that extent we are in a stronger position to meet any future crisis than we were in 1907?—Enormously.

1057. I do not know whether, with reference to these figures, you would like to add anything to what you have already said about the amount to be held in the gold standard reserve or with regard to these investments in securities?—There is one obvious remark—I am not sure that it would be agreed to by everyone, but I think it is worth making—that the best system if practicable of measuring the amount required for the gold standard reserve is that one should make it contingent to some extent on the other sterling resources to which you have just drawn attention. There are advantages in considering it in isolation. But on the whole, I think, if there is not too great a sacrifice of simplicity, it is better to have as one's working rule that the gold sterling assets in the paper currency department, plus the corresponding assets of the gold standard reserve, should be of a certain amount allowing for variations between the various items making up the total. That is the chief remark I should like to make. The other is of no very great importance, but it supplements what you were saying. You not only showed that with regard to the amounts we are in a much stronger position than we were, but I should like to add that as regards the form in which our invested portion is held there is an advantage, a very great one, if you compare the investments before 1907 with the investments now held, and of course there is more gold in the gold standard reserve, and there is some money that is held practically at call.

1058. We are familiar with the criticisms to which you referred, I think, that Indian interests are very often subordinated to the interests of Lombard Street; but it is the fact, is it not, that to a very large extent those interests are the same?—Yes.

1059. That is an argument on which stress has frequently been laid—that India cannot do anything to disturb the London money market without injuring itself?—I am always anxious not to insist on that too much. I feel that occasionally the interests of the London money market and the interests of India do not coincide. I would rather say that it is the duty of the India Office to see that Indian interests are considered as against London interests, when there is not an absolute coincidence—I prefer that—rather than to put up the comfortable proposition that there is a providential coincidence of interests on all occasions.

1060. There very often is a coincidence?—Yes.

1061. Or rather the interests of India very frequently depend in a very marked degree on the state of the London money market?—Yes.

1062. For instance, at present we are faced with the difficulty of raising money for our railways?—I am entirely in agreement with you, but I was anxious that one should not appear to overstate it if I may say so.

1063. It is a criticism, is it not, that all this gold is taken out to India and is locked up there in the Government coffers?—Yes.

1064. The Fowler Committee in the same paragraph that I have referred to speak about securing not only the free inflow but the free outflow of gold from India?—Yes.

1065. It is objected that while more gold goes into India than is really required or used, it does not come out?—I have seen that objection.

1066. I want to know what you think about that objection?—I think that there is very little substance in it. If we sold our council bills in a very different way from that in which we do sell them I have no doubt that a great deal of gold would go to India and would remain there for a time, and then would come back as indeed was the custom some years ago, that is to say, if you look at the history of our Treasury transactions between 1899 and about 1905 you will see there was a continual inflow and outflow of gold—all very wasteful and doing no good to anyone.

1067. When you say continual do you mean continuous; would it not be seasonal?—It would be seasonal. When I said continual I meant that every year, or perhaps two or three times a year, there would be large shipments home from India of gold which had been travellling into India week by week at a certain period of the year. Now, what we do or what we try to do, and I think fairly successfully, is to see that India has, as a rule, as much gold as the people require. When there is an opportunity of selling bills as a substitute for the import of unnecessary gold, we try to sell such bills so that the money may be held by the Secretary of State in London for the purposes of India.

1068. In any case this gold which is now held by the Government in India would in all probability come out on the occurrence of the next scarcity?—Did you say that which is held by the Government?

1069. Yes?—I suppose so.

1070. I do not know that you can expect it to come out of India so long as the exchange is in favour of India?—I thought you meant come out of the reserves into general circulation.

1071. Either that or out of the country? — Of course that is one of the odd problems about gold in India. You noticed what I mentioned in paragraph 9 D. (*b*) of Appendix III. (page 90), that in that last great crisis the Government lost out of its reserves 4 millions of sovereigns, of which 94 per cent. apparently remained in India and only 6 per cent. was exported. It is quite possible that in the next crisis the Government gold may merely disappear into hoards or into internal circulation in India and may not be sent home to England; I do not know that anyone has any right to complain of that.

1072. The Government can send home gold themselves?—If the Government adopted that change of policy it would be a very striking departure from what they adopted in 1907.

1073. Do you think anyone could expect the gold to come out of India in the present conditions, as long as exchange is in favour of India?—No.

1074. (*Lord Kilbracken.*) Is it not sometimes assumed or implied that there is a necessary and natural connection between the profit made by the Government of India on the coinage of rupees and the amount at which the gold standard reserve figures?—Yes. For the moment, of course, the gold standard reserve consists of the accumulated profit, but I understand your point to be that if after certain amounts have been reached for the gold standard reserve further rupees were coined, it would not be necessary to add the additional profit because we might have reached a point of safety.

1075. You do not think that the number of rupees coined ought to be the measure of the amount kept in the gold standard reserve, do you?—No, I certainly do not.

1076. I understand you to say that it is possible that the profit on the coinage of rupees may supply more than is wanted to form an adequate reserve?—Yes. I think that is the view very generally held by anyone who has examined the figures.

1077. At certain times have the profits on the coinage of silver been diverted to the paper currency reserve and to the supply of rolling stock?—Not to the paper currency reserve but to the Indian branch of the gold standard reserve.

1078. At any rate it has been diverted to other purposes?—Yes.

1079. Do you consider that at the time that was done there was nevertheless an adequate amount left in the gold standard reserve?—Yes, and fortunately it does not depend on my opinion—events proved it. I held that opinion when it was about to be done, and I was fortunate enough to find that when it had been done events confirmed my opinion.

1080. I believe I am right in saying that the report of such a Committee as the one presided over by Sir Henry Fowler has no authority or binding effect whatsoever upon this Office or upon the Government of India, except in so far as it may be accepted and acted on by the Secretary of State in Council?—Quite so.

1081. If that is so, I suppose it follows that the Secretary of State acting on behalf of the Government may accept the recommendations of a Committee and yet may be perfectly justified in changing his policy and taking a different course after further experience?—Yes; it is his duty.

1082. (*Sir Shapurji Broacha.*) Supposing you took out one million sterling from the paper currency reserve here for the support of exchange, the Government of India would put a crore and a half in the currency reserve in India against that, would it not?—Yes.

1083. So the proportion is never broken and therefore the statute is never broken?—Quite so.

1084. So the reply to Sir James Begbie's question about the Secretary of State breaking the statute is that the statute is never broken, for whatever the amount which you take out from the currency reserve for the support of exchange so many rupees are put into the Indian Treasury into the currency?—I am much obliged to you for bringing out the point; but I do not think Sir James Begbie raised any doubts about it.

1085. When the Secretary of State bought bills at 1s. $3\frac{29}{32}d.$ the Secretary of State made a profit on buying at a lower rate than he sold. It is something like selling a sovereign for francs, is it not, when you get 25·12 francs?—Yes.

1086. There you are paying a much higher price than the gold contained in the 25·12 francs, because the commission on exchange and the transport charges are included?—I see your point. When the operation of restoring the reserve was going on the Secretary of State was making an exchange profit as compared with the rate at which the bills on London had been sold.

1087. That is it; it is just like selling rupees on Calcutta at $\frac{4}{16}$th discount as the Government charges?—It is in fact an ordinary business operation.

1088. That is not breaking a law and it is not selling at a lower rate than the market rate?—No.

1089. (*Mr. Keynes.*) Yesterday you gave about 30 millions as the proper figure for the sterling reserves to reach?—The sterling reserves to be held in London.

1090. In your opinion has the time yet come for the Government to enter into a definite undertaking to maintain exchange within certain prescribed limits of fluctuation?—I should say in my opinion, and I am very anxious not to commit anyone beyond that, the time is approaching but it has not yet come. I think if I were an autocrat in these matters I should wait until the reserves have got nearer to the amount that is considered suitable. Supposing my figure of 30 millions were to find acceptance I do not say one need wait until the 30 millions have been reached, but it would be well to wait until one is nearer 30 millions than we are now.

1091. Anyhow, when the 30 millions have been reached, then you think there would be no objection to the Secretary of State entering into an undertaking to maintain exchange within certain limits?—As I say, it is very important that I should speak only for myself, but speaking for myself I think that that should be done. I may say that I am, as it were, deeply committed in the matter, because the Colonial Secretary was good enough to ask me to join the West Africa Currency Committee, which in a way dealt with important questions, and on which we recommended, and I think the Government is carrying out, a similar policy for West Africa, that is to say, the obligation to sell exchange on London is unlimited.

1092. You mentioned a few minutes ago that the Government have now got 18 millions in India in gold. But if they were to export 5 or 7 millions of that to London they would then already have the 30 millions in London?—That is so.

1093. So if they were to take that step they would then be in a position to enter into the undertaking immediately?—That is so. I had not thought of it for the moment because it struck me there would be some dismay in some circles in India if that export on a large scale were to take place. But I can see advantages in it; I mean, if my view were endorsed

by the Secretary of State, it would certainly put the Indian currency system on a very firm foundation; it would greatly improve it.

1094. Do you think it is arguable, therefore, that it might be a good policy to bring home from India 5 to 8 millions of gold for that use?—If it were intended to use it for this particular purpose, to take this very great forward step in our currency system, I certainly think that is arguable.

1095. One further point connected with that, though of much less importance: If, when the next crisis comes, the Government has still that 18 millions in India in gold, would it be a wise policy for the Government to export part of their gold to London themselves?—The Government ought, if it has a very large sum at the beginning of the crisis, which is, perhaps, not very probable, because crises come in a very slow and insidious way—if it has a very large sum at the beginning of the next crisis, it ought either to export it itself or, I think, to take special steps to secure that a considerable portion of it at least is used for export. On the last occasion, the crisis of 1908, I am afraid that the Government of India temporarily reversed—they probably did not realise they were doing it—for the time, the policy that the Fowler Committee had recommended. The Fowler Committee said the chief use of a gold reserve—I think the Chairman quoted it yesterday—is to be exported at certain times, and the Government of India took the view that the chief use of a gold reserve was to keep up the internal circulation of gold, and that its use for export ought to be restricted in order to secure that the internal circulation was kept up. I think that that policy ought not to be repeated, but that the exact measures for reversing it and the exact extent to which each measure should be taken would want considering.

1096. (*Chairman.*) I understand that the primary and main object of the gold standard reserve is to maintain the exchange?—Yes, to prevent exchange from falling.

1097. And that, in your opinion, the recommendations of the Fowler Committee, when relating to the gold standard reserve, have been in all substantial particulars carried forward?—Yes. Of course the recommendations were very sketchy and incomplete owing to the circumstances which then existed.

1098. In particular to hold the main portion of the reserve in London in readily realisable securities does, in your opinion, fulfil the functions of the Fowler Committee, though they spoke of holding the reserve in gold?—Yes.

1099. Your view is that those securities are as good as gold for your purpose?—Yes, and that the Fowler Committee, when they adopted that paragraph in their report, meant "gold" to be used in the wider sense.*

1100. (*Sir Robert Chalmers.*) Not silver, in fact?—Quite so.

1101. (*Chairman.*) It comes to this, that these securities are readily convertible into gold at any moment?—Yes.

1102. And that is why they are as good as actual metallic gold?—Yes, they are readily convertible—I am sorry always to put in this point—into sterling money. I made the remark for this reason: someone has said—I do not know if it was a member of the Commission—that if you want to sell your Consols or your Treasury bills and take the proceeds in sovereigns and take them away it would be a very difficult operation to carry out at this moment. I quite agree with that remark. But of course if one had to use the gold standard reserve, one would not need to take the money in sovereigns.

1103. When you get to the bottom of this transaction, does it not in fact rest upon somebody else keeping actual gold if you do not keep it yourself?—Certainly. I do not wish to overstate the difference between taking the proceeds of one's securities in banker's money and in gold respectively; but also I wish to mention that there is a difference.

1104. Do you agree that it is only safe for you to hold a large proportion of the gold standard reserve in securities instead of in gold itself on the assumption that somebody else is holding large stocks of gold so that gold will be readily available if it is required?—Yes; or that sterling banker's money will be available.

1105. What exactly do you mean by sterling banker's money?—I hope I do not insist too much on the difference, but it does seem to me important. When a large payment has to be made from India to this country or to Europe generally (because Sir James was pointing out that such payments may have to be made to Germany or France in liquidation of an adverse balance of trade), the Government of India would offer to sell exchange on London to those people who have to make the payments and would realise its securities and would pay, say to the National Bank of India or to the Hong Kong and Shanghai Bank, to one a cheque for 100,000*l.*, to another a cheque for 300,000*l.*, and that money would go ultimately to pay the Manchester cotton spinner who had exported goods to India, and to satisfy whose requirements the whole of these operations were being carried out. It is important to remember that the Manchester cotton spinner does not want so many hundred thousand golden sovereigns. What he wants is to see at his bank, perhaps at the Bank of England itself, a figure with a suitable number of noughts after it standing to his credit.

1106. That is to say, as long as there is credit you hold that you do not need gold?—You say "credit"; I hope I am not obstinate, but I think that "bankers' money" is the expression, because when one mentions credit it implies that there is some borrowing involved, that someone is lending someone something. Having a big amount to your credit in your bank does not involve credit.

1107. (*Mr. Keynes.*) Are you not lending to your bank?—Yes, in that sense there is credit, but I was anxious to avoid certain of the connotations of the word "credit" which are not really relevant.

1108. (*Chairman.*) I want now to go to the question of the coinage of gold in India. You have handed in a short note upon the subject which we may include with your evidence, I think?—Yes (*see* Appendix VI., page 212).

1109. We have also had circulated to us a return moved for by Mr. Touche in the House of Commons and presented to that House, dated the 31st January 1913 (495)?—Yes.

1110. The views of the Government of India are, I think, set forth in their despatch No. 59, dated 16th May 1912, which appears on page 57 of Mr. Touche's Return?—Yes.

1111. At the present time both gold and silver are, I take it, established as legal currency in India?—Yes, and without limit of amounts.

1112. How would you describe the Indian system? We have touched upon that on two or three occasions, but I would like to hear your description of what the Indian system now is?—We had a few words about it earlier in the day, and I applied to it the well-known phrase of the limping standard, because I thought that that phrase properly applies to any currency system in which two metals are full legal tender; when I say full legal tender, I mean legal tender without limit of amount, without the two being convertible one into the other by statute. Whether I have applied the right designation to it or not, that is the position in India; sovereigns and rupees, as you see, are full legal tender, and the public has a right definitely secured, though not a legally established right, to get rupees in exchange for sovereigns at a certain fixed rate, but there has been no undertaking to give sovereigns in exchange for rupees. The system is supported, as you know, by the action taken by the Government in the past and the expectation as to the Government's future action when support is needed.

1113. Is the result of the working of the system, as you have described it, that a parity of exchange is preserved with gold-using countries, but that a similar parity of metals is not preserved in the internal economy of the country?—Between India and gold-using countries a parity is maintained, and there is ordinarily a very close parity between rupees and sovereigns actually in India. The rupee cannot go

* C. 9390, paragraph 60, page 18.

appreciably above one-fifteenth of a sovereign, because anyone who presents sovereigns can get 15 rupees for each of them. I do not think that it is possible whilst international exchange with gold-standard countries is maintained that the rupee should go materially below one-fifteenth of a sovereign; but there is no special machinery by which the holder of the rupee can get sovereigns, except when it is convenient to the Government to let him have them; that is to say, in effect, he can get them when the Government has them, but the Government does not undertake to get a stock of them in order to supply his demands.

1114. Now I ask you to look at that despatch, to which I have alluded, of the Government of India, No. 59, on page 57 of Mr. Touche's Return (H.C. 495 of 1913). In paragraph 3 the Government of India say, "It is, we think, an indisputable fact that the estab- "lishment of a gold currency was regarded as the "logical and natural sequence of the closing of the "mints to silver, and as the necessary accompaniment "of the establishment of a gold standard." Do you agree with that statement of fact, in the first place?—Yes. I think that the ideas prevailing in the minds of those who recommended the establishment of the present system include the use of gold as currency.

1115. Do you yourself think that it is a logical and natural sequence of the closing of the mints that there should be a gold currency established?—No. I think it is convenient, India being placed as it is, and the tastes of the people of India for the use of gold being what they are, that gold should circulate as actual currency; but, as you know, there are some countries which have a well-established gold standard which do not use gold for currency purposes. I noticed that one important Canadian bank manager developed that very fully before a recent Canadian Committee. It was familiar to me, because the late Sir Edward Clouston put it very strongly before the Fowler Committee in 1898. Canada, as everyone knows, is a gold standard country, and it has a well-established gold standard: but the use of gold as currency there is extremely infrequent; at least so I am assured, but I have never been there.

1116. I think you are referring to some evidence given by Sir Edmund Walker, the President of the Canadian Bank of Commerce before the Banking and Commerce Committee of the Canadian House of Commons?—Yes.

1117. I have that evidence before me.* He was asked, "Do you think the public will not receive gold from the banks?" And he replied, "Oh, no, I do not "say that; but it is not the kind of circulation that "people want, and it is a very wasteful kind of "circulation. (*Q.*) It obtains in all great countries in "the world?—(*A.*) It does not obtain in all great "countries in the world, only in Great Britain. "(*Q.*) And in Germany and in France?—(*A.*) Not to "any great extent." Do you agree with that?—I cannot speak with any precision about the practice in France and Germany. It is a matter of common knowledge that in Italy, which has now a well-established gold standard, the use of gold is extremely infrequent and the habitual currency is notes.

1118. I gather that one reason put forward by the Indian Government for desiring the coinage of gold is the belief that it will increase the amount of gold in India?—No, I think they guard themselves against that. I think they say that it would not bring more gold to India. I think perhaps what was in their mind was this—that they thought it would increase the amount of coined gold in India by inducing the owners of bullion and ornaments to bring them to the gold mint and have them coined into sovereigns.

1119. Do they not go a little further than that, and suggest that the amount of gold in India will be increased, because there will be more gold in circulation and in the hands of the people?—I am inclined to think that they do not put that point.

1120. Do you think that their inference is only that gold now hoarded will take the form of coin?—Yes. May I refer to the Secretary of State's despatch, No. 139, dated 18th October 1912 (page 65 of H.C. 495 of 1913), which summarises the views of the Government of India? It says at the end of paragraph 1, "You hold the opinion, which seems clearly correct, that "it would not be likely to increase the importation of "gold into India." The passage on which the Secretary of State's summary is founded is evidently paragraph 14 of the letter from the Government of India.

1121. That is the paragraph in which they say, "Neither, in proposing to open a gold mint, is it our "intention to induce thereby an increased flow of gold "to India"?—Yes, and you see that paragraph ends with the words, "but the aggregate inflow of gold will, so far as we can see, remain unaffected."

1122. On the other hand, they are of opinion that the opening of a gold mint and the extension of gold circulation would aid in supporting exchange?—That is so.

1123. Do you share that opinion?—I do not think that it would give any material help. I think I was mentioning yesterday that I hold the view which Lord Goschen and Mill and many distinguished economists have held, that the gold which is actually in circulation is of very little use in maintaining the exchange between the country in which it is circulating and other countries.

1124. What are the advantages which you would expect to accrue, if any, to India from the opening of a gold mint there?—I think that there are very few advantages indeed. Of course you are not asking me about the advantages of the circulation of the sovereign, because that is a different matter, seeing that it is well recognised that it can circulate whether there is a mint or whether there is not. I think the advantages of a gold mint are very slight indeed, seeing that sovereigns can be imported, and are freely imported, to a very great extent. One advantage to which I do not attach very much importance is that it would be possible to coin a gold coin other than the sovereign. There have been recommendations, or rather representations, to which some weight is to be attached, that such a coin would be popular and would serve purposes that a sovereign does not serve. Sir Vithaldas Thackersey in 1911 made a speech,* which I daresay will be brought to your notice, in which he said that a smaller coin, and an Indian coin, might be more popular. That I think is one possible advantage, more especially since his view has been supported in various quarters. I remember Mr. Webb, who is a well-known writer on this subject, wrote to the Secretary of State once urging that there should be a specific Indian gold coin. I imagine that he was voicing the opinion of a certain number of persons in India with whom he came in contact. I think if I could remember them, there have been others who have represented that the 10-rupee piece would be fairly popular. I believe that the Government of India thought that there would be some demand for it, so that one advantage would be the introduction of a more convenient form of coin.

1125. Is that an advantage which is dependent on the establishment of an Indian mint? Would it not be possible to have an arrangement with the mint here that they should coin whatever gold coin India required?—Yes, that would be possible. I think the advantage I was just mentioning merges very much into the one that I was about to mention: it has been said to me by friends of mine who have some experience of Indian feeling, that certain sections of Indian feeling, perhaps a very large section, would be much gratified by the opening of a mint for the coinage of gold in India. Personally, I find it a little difficult to understand what personal gratification it would bring to any Indian to know that his country had a gold mint as well as a rupee mint, but I must take the fact as it is given to me, that some gratification, it is alleged, would be caused by the opening of such a mint.

1126. So that in your opinion the advantage would be really rather the satisfaction of sentiment than any concrete gain?—Yes.

* Not printed (pp. 43–6 of Report of Examination of Sir Edmund Walker, Kt., C.V.O., before the Banking and Commerce Committee of the Canadian House of Commons *re* Bill No. 36 (Banks and Banking), April 16–17, No. 40,341–1, Ottawa Government Printing Bureau, 1913).

* *See* H.C. 155 of 1911, page 306.

1127. In paragraph 22 of that same despatch, No. 59, on page 61 of H.C. 495 of 1913, the Government of India, whilst disclaiming any idea that the coinage of gold in India will be a panacea for all Indian currency ills, add: "Indeed we do not imagine "that its influence will be greatly felt at first; but "such a measure will mark a step along the path "which has been authoritatively accepted as the "line on which our currency policy must develop, "and in time it will be of great assistance in "maintaining the stability of our currency system." Can you develop that idea for me a little?—I think what the Government of India would say is that when there were many more sovereigns than at present and fewer rupees making up the total circulation in India, the danger of a fall in exchange would be less than it now is. I cannot say that the argument appears to me to be extremely convincing, because I think it overlooks the fact that the reason why the Indian exchange tends to fall under present conditions is mainly that India is a debtor country, and that from time to time, if trade goes against her, she finds a difficulty in paying her debts abroad. If she had a gold currency she might have to export her currency if the holders of it were willing to let it be exported; but if she did that there would still be the fall in exchange that there is at present. The idea that you prevent a fall in exchange by exporting your currency seems to me to have very little foundation.

1128. The great advantage of the proposal in the mind of the Indian Government is that it would increase the number of gold coins in circulation?—Yes.

1129. And also increase the proportion of gold in India as compared with silver?—Yes, but the reasons for holding that opinion are not very clear or strong.

1130. Apparently it is not anticipated that it will cause gold to flow into India?—No.

1131. But that it will bring gold out of hoards, or out of the bullion condition into the coined condition?—Yes.

1132. You have spoken on more than one occasion about the issues of gold to the public in India. In paragraph 9D (*b*) of Appendix III. (page 90), speaking of the course of events of 1907-8, you say "It will be seen," from the tables that you print, "that the sovereigns held in "Government treasuries and reserves in India decreased "between September 1907 and December 1908 by "4,394,000*l.* of which 215,000*l.* represented light coin "sent by the Government of India to the Secretary of "State, and the remainder (4,179,000*l.*) issues to the "public in India." The export on private account which you are dealing with in that paper during that period was only about 250,000*l.* Have you any theory as to what became of the rest of those sovereigns?—I imagine that they went the way of many other sovereigns, and of the gold in other forms than sovereigns that is continually being imported into India. No doubt a certain number of them may have remained in circulation, but I think that hoarding and melting were probably the destination of the majority.

1133. If they were hoarded as sovereigns, it is of course possible that the expectation of the Government of India might be realised, that in times of need they would be tempted out again?—I think that the expectation of the Government of India was that they would be tempted out again, and then they would in some way serve to support the exchange value of the rupee. It is the second part of the expectation which seems to me to be a little doubtful.

1134. But if they had been melted down there would have been no advantage in having them coined, and they might just as well have gone in straight as bullion?—That is so.

1135. Is it possible to frame any reasonable expectation of what would happen if you minted more sovereigns or more gold coins in India? Is it possible to frame any sort of hypothesis as to the proportion which would be melted down?—No. I should say that if gold in India was brought to be coined into sovereigns, the presumption is that it would remain in the form of sovereigns. If a man wanted gold he would not go through the process first of all of sending the bullion to be coined, and then of melting the coin so as to put it back into bullion. I should say that the danger is, if I may hazard a conjecture, that since the owners of bullion in India who hold it in that form do so because they prefer it in that form, they would continue to do so even if there were a mint for the coinage of gold in Bombay; and that the mint would probably do very little business.

1136. Of course the same man would not at approximately the same time be bringing bullion to the mint to be coined and then melting down coin into bullion?—No.

1137. But the coin that was minted from the bullion brought to the mint by one man might be melted down by another man into whose hands it shortly passed?—Yes, that is possible, and then there would be waste.

1138. And there would not be that increase of coins in circulation which the Indian Government hope to see?—No, clearly not.

1139. In itself do you think it is an advantage to increase the number of gold coins in circulation, provided that there are already sufficient to meet the natural desires of the public?—The difficulty of answering that question is that if there are as many as the public desire, then you cannot increase the number. If there is a public demand for sovereigns which is not fully satisfied, I think then it is an excellent thing to do what can be done to satisfy the demand.

1140. I understand your governing principle is that it is the business of the Government to provide what the public desire?—Yes.

1141. If they want gold coin let them have gold coin, and if they want silver let them have silver?—Yes.

1142. Have you any reason to doubt that that is what happens now?—No. It is to be noticed that the public demand for sovereigns does increase very rapidly year by year, and a time might come when the demand is larger than could be satisfied from the stock at the disposal of the Government. Then it is just possible—I merely put this because I wish to be fair to every side in this controversy—that the existence of a gold mint in Bombay might enable the holder of bullion to get sovereigns by the coining of his bullion, which otherwise he might find it difficult to get.

1143. In this despatch (page 57 in H.C. 495 of 1913) the Government of India propose to make their gold coin a sovereign. I think I am right in saying that included in the papers are a letter from the Treasury to the India Office explaining the difficulties of that proposal, and a letter from the Secretary of State in which he seems to think it likely that the Government of India will not approve of either alternative presented by the Treasury, and in which he observes, "If both are dismissed it will remain "to consider whether it is desirable to produce at one "of the Indian mints a separate Indian gold coin of "the denomination of, say, Rs. 10." Is there any answer to that despatch which we ought to have?—The important communication from the Government of India is a telegram, dated 20th January 1913, in which they say, "As you anticipated," referring to the despatch of the Secretary of State, which you have just quoted, "we do not favour either of the alternatives "offered by the Treasury. We therefore, accept your "offer to sanction the issue of a separate Indian gold "coin of the denomination of Rs. 10. We will submit "our proposals as to details of the coinage in due "course." Then they discuss the dates on which it would be desirable to make an announcement, and that perhaps I need not read. I ought to mention, so as to avoid misunderstanding, that that telegram was sent before it had been decided to appoint this Royal Commission. On the 24th January, 1913, the Secretary of State suggested that, before any final decision was taken, the usual procedure for eliciting public opinion in India should be followed. Again he returned to that point in a subsequent telegram, and the discussion to which those suggestions gave rise ended with a statement from the Government of India as follows, dated 10th April, 1913:—"In your tele-"gram of 14th February we were informed that the

" Royal Commission would inquire *inter alia* into " Indian currency administration. The possibility of " a decision being arrived at on the question of gold " coinage independently of a Commission was there- " fore never anticipated by us. It is assumed generally " by the public in India that the question will be left " for the Commission to decide, and we are of opinion, " after full consideration, that this is the only possible " course now. Ample opportunities for ascertaining " the opinion of representatives of the commercial " public in India will no doubt be given to the " Commission." That telegram came as the reply to the Secretary of State's inquiry as to what detailed steps should be taken to elicit public opinion in India, and you will see that in effect the Government of India said, We will do nothing at present; we will wait until the Royal Commission has considered the matter.

1144. The present arrangements have secured a stable exchange between India and other countries?—Yes, between India and gold-using countries.

1145. In that respect we have all the advantages of a gold standard?—Yes.

1146. Those advantages have been secured without the existence of an extensive gold currency in India?—Yes.

1147. Some people would say, and apparently Sir Edmund Walker, to whose evidence you alluded, would say that the most admirable system you could have was one in which your gold was in reserve and protected your exchange, and was not in circulation?—Yes.

1148. And would consider that so far from its being desirable to encourage the use of gold in circulation, it was a very uneconomic and wasteful thing to do?—Yes.

1149. Is that, on the whole, your view, subject always to your governing principle, that after all it is not a matter for Government to decide, and that the public must have what they want?—Really, the reiteration of that principle answers the question. I see no disadvantage to India in the use of gold, and I see no advantage to India except its convenience. I understand that with the people who do not readily take to the use of notes, as is the case with the inhabitants of some parts of India, but not the majority of India fortunately, the gold coin is a great convenience. Of course I agree with the view held, I think, by most persons who consider currency questions, that the ideal form of currency is a note currency; but one cannot expect India to be much ahead of England in such a matter, and in England, as you know, notes are a very unimportant part of the currency.

1150. (*Sir Robert Chalmers.*) The chief part of the currency being the cheque?—That is so.

1151. (*Chairman.*) Of course, a cheque is very similar to a note in some respects?—Yes.

1152. (*Lord Faber.*) In an answer given by you to the Chairman, you expressed the opinion, I think, that the export of gold coin or bullion would not stop a fall in exchange; is that your considered opinion?—It would not prevent a fall in exchange, because it would be brought about by a fall in exchange. So long as a country was losing its gold by export, its exchange would be *ex hypothesi* at or below the gold exporting point.

1153. Would not the fact of exporting bullion, and, therefore, not using exchange at all, tend to a jumping up of the exchange again?—It would tend to restore the exchange, but it would not tend, I think, to prevent the exchange from falling to the gold exporting point. The reason that I mentioned it is this: Everyone knows that in India we have methods—for instance, the sale of these bills of which you have heard so much—for preventing exchange from falling below a certain point, that is to say, the point at which we sell the bills: and, from what one reads in newspapers and elsewhere, one gathers that the opinion is held that if gold were very largely circulating in India, there would be a more effective method of achieving the same object, and that the exchange would necessarily be stopped in its fall at a higher point. I wish to mention—and that is why I made my remark—that I do not think that those opinions are well founded.

1154. (*Sir Robert Chalmers.*) Respecting the hypothesis that there would be an Indian mint coining gold, and gold of an Indian denomination, did you contemplate seigniorage; what would be your view on that subject?—I have no very strong view about it at all. When the sovereign was proposed, you know, it was proposed to have no coinage charge. If you have time to read the whole correspondence you will see that there was a discussion with the law officers as to whether it was possible to have in an Indian branch mint an arrangement similar to that at the Royal Mint, and differing from that which prevails in Australia. After much consideration it was decided that the Royal Mint arrangement, under which there is no charge, was possible even in a branch mint, though there is at present no branch mint which does not make a charge. When the question came of a 10-rupee gold piece instead of a sovereign, the point regarding the charge was a new one, and Lord Crewe, in his despatch, asked the Government of India to let him have their views as to whether there should be a seigniorage or not.

1155. Have you got their views?—No, we have not got their views. I feel with regard to this, as with regard to many other of the questions which arise about coinage, that points which are of very small importance are considered in some quarters to be very important. I do not see that there is very much importance in the question whether there should or should not be a small seigniorage on the coinage of a 10-rupee gold piece.

1156. It would have this effect, surely, in the domain of ordinary finance that a seigniorage would represent a charge covering the cost of turning bullion into the form of coin, and therefore any operations in the way of setting up a gold mint in India for coining gold coins would tend to be self-supporting instead of being an entire loss to the taxpayer?—From that point of view the importance is clear, but I think that the critics to whom I refer had souls above considerations of loss to the taxpayer.

1157. It is generally understood, is it not, that the cost of minting, and so forth, may be taken at about $1\frac{1}{2}d.$ an oz.?—I think so. That corresponds to the Australian charge fairly well.

1158. If you have got a seigniorage charge, by export of the coins so minted you lose what you have paid for?—Yes.

1159. And so far there would be a tendency to keep the gold coins on which seigniorage had been charged in the country?—Yes.

1160. Seigniorage is generally charged in all countries, is it not?—This country, I believe, is generous owing to the influence of the Treasury, but other countries, I think, usually charge a seigniorage.

1161. The general body of precedent would be in favour of a seigniorage charge?—Yes.

1162. And that was imposed by this country under the Coinage Act of 1870 for the branch mints in Australia?—It was not imposed—it was allowed, and then the permissive power was exercised.

1163. Take again the hypothesis of the Indian gold coin; it would be of the greatest importance, would it not, that the fineness of those Indian coins should be the same as the sovereign, $\frac{11}{12}$ths, so that they could exchange by weight?—I should think so. Of course there are differences of fineness between Indian and English token coins, but then the same considerations do not apply.

1164. If you have no sovereign coined in India, the ordinary method of settling international balances would be by bullion, would it not?—No. You ask, if you have no sovereign coined in India?

1165. Is not bullion the normal international medium of exchange, is not coin only a substitute for that?—It is a very usual substitute, and a very convenient one; but the normal method, I should say, as between India and the rest of the world, is by the use of this machinery that the Government has set up, in fact by the use of what, in the widest terms, one would call credit instruments.

1166. Do you think there is any popular demand in India for a special gold coin of its own; do you think there is any national sentiment in that direction?—Even those who are on the spot in India are certainly liable to make mistakes on the subject, as I should like to illustrate in a moment, so that I, not being there, cannot give an opinion. There is a very curious illustration of the difficulty of gauging Indian sentiment in this matter. In this White Paper which was published at Mr. Touche's request (H.C. 495 of 1913), the Government of India were very emphatic. The Secretary of State asked whether Indian opinion ought not to be ascertained. In a telegram of 18th May 1912, on page 63, the Government of India said: "We have not obtained opinions of the bodies you "have mentioned. Matter has been twice subject of "debate in Imperial Legislative Council, and during "past year has been discussed vigorously in Press, "and by commercial interests in India and England, "therefore do not think it is necessary to collect "further opinions." Then in the same spirit they say, on page 62, paragraph 25, "Our proposal for a "gold coinage has behind it the overwhelming support "of Indian public opinion, the leaders of which are "ready and anxious to extend the everyday use of the "common coin of the Empire, and are unable to under-"stand why India should be denied the same minting "facilities as have been given to Australia and Canada." In view of all that, the Secretary of State was surprised to some extent when about two days after the publication of this book he received a telegram from the Calcutta Chamber of Commerce mentioning their pain at not having been consulted, and I think they traversed there the statement that there was behind this proposal the overwhelming support of Indian opinion, and in a meeting of the Calcutta Chamber of Commerce some views controverting this statement of the Government of India were expressed with some freedom.

1167. If there was not a national feeling, if I may so call it, in favour of a distinctive coin of Indian manufacture, would you say that on merely economic grounds there was any justification for the spending of any money on the coining of gold in India?—No. I would certainly say that in the absence of this sentiment that there is no justification for spending what would probably be about 16,000*l.* a year at least.

1168. (*Sir Ernest Cable.*) When the Fowler Committee recommended the institution of a mint in India, do you happen to know whether there were many sovereigns going out to India at that time?—There were very few. I think you will find somewhere in the Committee's report that they mention that when they wrote, three million sovereigns, I think, had gone to India. I am not sure if I have the exact figure, but at any rate it was a trivial amount compared with what has since gone.

1169. So it might be a legitimate inference from that that if they had anticipated the large sums in sovereigns that have gone out recently they might have reconsidered that recommendation?—Your point has been anticipated by the Treasury. You will notice in this correspondence that was published, the Treasury said that the object which the Fowler Committee had before them seemed to have been achieved by other means which they did not anticipate.

1170. It has just come out in evidence that Canada is a case where the mint is not really wanted?—I believe opinions differ, but there are authorities who hold that it is not wanted, and that it might well be abolished.

1171. The case of Australia seems to be different, for its three mints have been largely used, have they not?—I believe only a comparatively small proportion of the gold which is produced in Australia is coined, but I am not quite sure. You will have seen in some of the statements that I gave that two of the mints in Australia coin about two million sovereigns a year, and the other one about four millions.

1172. Is that entirely from local production?—Australia coins about nine million sovereigns a year, and I rather fancy that its gold production is more than that.

1173. But it is got entirely from local production?—Yes.

1174. It follows from that, does it not, that if the Mysore gold mines did not want a mint in India, that would be a powerful argument against it. Do you happen to know their views about a mint in India?—I think I read out yesterday what was stated in 1902 as to their feeling and their practice (paragraph 3 (v) of Appendix VI., page 213), and I have no reason to think that they have in any way altered. I should think generally it would be more convenient to the Mysore mine owners, when they have the unrefined gold ready, to send it to England than to dispose of it there.

1175. They would be not likely to use the mint perhaps even if it was put up?—They might or might not. It cannot make very much difference to them, because they have to send the greater part of their production home, naturally, because it belongs to their shareholders. So that if they had their gold coined they would buy exchange on London, I presume, out of what was left after paying their wages bill; therefore, I do not think it would matter much to them.

1176. (*Sir Robert Chalmers.*) If there was a seigniorage it would deter them?—Yes, if there was a seigniorage on their 10-rupee piece, I suppose it would.

1177. (*Mr. Keynes.*) Are half sovereigns legal tender in India?—I think they are. I daresay you have the Coinage Act. I think that the words of it are "sovereigns and half-sovereigns coined at any mint or branch mint."

1178. Is there any evidence of half-sovereigns being popular?—I do not think so. I remember to have seen—I forget whether it was in an official paper or in an unofficial one—some statement which rather impressed me that they were not popular; but I am sorry to say that I cannot at the moment recollect who was the authority. I thought at the time it was a good authority; that is all I can say.

1179. The fact, therefore, that an Indian gold coin of 10 rupees would be rather smaller in face value than a sovereign, is perhaps not much reason for thinking it would be popular; or do you think it is?—No, I do not think it is much of a reason.

1180. If there was a demand for a smaller gold coin, half-sovereigns might have been used?—Yes.

1181. With regard to the terms of mintage, there is no seigniorage at the Royal Mint, but sovereigns are not given on demand in return for bullion, are they?—No; there is a seigniorage in time, but not in money.

1182. And the mint rather discriminates against private persons in the matter of quick delivery?—That I did not know.

1183. It is the case, anyhow, that the ordinary seller of bullion finds it worth while to sell gold to the Bank of England at 1½*d.* an ounce less than the par value?—That is a well known difference.

1184. So that there is in effect a discount of 1½*d.* an ounce in England normally?—Yes.

1185. Which corresponds to the seigniorage which is charged in Australia?—No.

1186. In amount?—It may be in amount.

1187. I mean simply that the price of sovereigns in terms of bullion is less than the par value by 1½*d.* an ounce, both in Australia and in England?—I think you are assuming that there is immediate coinage in Australia. If it be the fact, and I cannot say, that besides actually imposing a charge of so much an ounce in Australia they keep the owner of bullion waiting for 60 days, or whatever it may be, then the ratio between bullion and sovereigns would be different in Australia from what it is here.

1188. It might be more than that?—Yes.

1189. If the mints in India were to charge no seigniorage, and were to grant quick delivery, they would be giving more favourable terms than can usually be obtained in England?—Yes.

1190. So that if that were the case it might be worth while for those who wished to remit gold to India to send out bullion and get it coined there, because they could get it coined more cheaply than in England?—Yes.

1191. They might even do that if the sovereigns were ultimately intended for some other destination in the East than India?—They might. Of course the saving on account of the effective payment made in England which they would avoid by sending their bullion to India would be so small that I should scarcely think they would take so much trouble, if the destination of their sovereigns was some place outside India.

1192. If the Indian authorities were to offer rather better terms than are usually obtainable in England, that would make a great difference to the likelihood of gold being brought to them?—Quite so.

1193. Do you think it is desirable that they should get better terms than are given in England?—It had not struck me that the matter was one of great importance; and also I should say that they would not get materially better terms.

1194. I was not asking about the fact; I was asking whether you thought it would be a good thing that they should. You say it is not of any significance?—I do not think it is of any significance either in itself or on account of the difference in the terms that it is likely would take place.

1195. If there was a difference of 1*d.* an ounce, do you not think that would make an appreciable difference to the amount of gold bullion sent to India for coinage?—I do not think so. I may be wrong, but I do not see that there is any great importance in it, either practically or theoretically.

1196. I understand that you take the view that the Government of India ought to take a purely passive part in the supply of currency, supplying gold and silver according as the public want it?—Approximately that is my view; I might use a slightly different adjective.

1197. Is it possible for the Government to take a purely passive view? Is it not necessarily within their discretion and power as to whether it is easy to get gold in remote parts of the country? I am thinking of such circumstances as that of the Government giving facilities outside the law for the encashment of notes when it is not inconvenient to the Government. In these circumstances it is within the power of the Goverment to give facilities for the encashment of notes into gold or only into rupees?—Yes.

1198. So it can make gold more or less easily obtainable?—In a sense you are putting to me the questions that I might have put to you. You began by using the word "passive," which I did not think exactly the right word, but I did not like to contest it. Now you are proving, I think, quite conclusively that it is not exactly the right word, but that the Government necessarily takes some slight share in turning the disposition of the people into one channel or another.

1199. Yes?—There I agree with you; and that was at the root of my demurring to your particular adjective—I think that we are at one.

1200. Similarly they can make notes more or less convenient; they can be at pains to make the notes popular or not?—Quite so.

1201. Within these limits, do you think that the Government would be wise to encourage the greater use of gold?—I think they ought to proceed with as much passiveness as is compatible with intelligence. Of course I, being in a very humble way an academic student of economics, like a note circulation better than a gold circulation, which is probably the case with you; but if people in India rather prefer gold, or if people in the Punjab, as you know is the case, rather prefer gold to notes, I think the Government ought not to be at any great pains to put difficulties in the way of their getting gold. I think that the Government might be at some pains to make it easy for them to get notes, or even to explain to them the advantage of notes; but it is rather by way of pushing one form of currency than by putting obstacles in the way of getting another form of currency that the Government should exercise such discretion as it does exercise.

1202. I believe it is the practice of the Government, is it not, to sell remittances at a small premium for remote parts of the country?—I do not know if it is to remote parts; I think it is rather to big trade centres up country.

1203. Do you think it would be a good thing if the Government made such remittances freely available in terms of gold?—I like the idea of the Government saying, Money is money; if you have remittance due to you we will meet your convenience as far as possible, but we will not make separate bargains regarding gold money or note money or rupee money. That, I think, is the right position for the Government which has a currency such as India has.

1204. I do not clearly follow your position. You say that the Government would be right to popularise a note issue by making notes very convenient and by explaining their advantages, but you think it would not be right for the Government to take similar steps with regard to gold?—I say it would not be right for the Government to place obstacles in the way of the circulation of gold.

1205. That is another point. Do you think it would be unwise of them to attempt actively to popularise gold in the way in which it would be right for them actively to popularise notes?—I should like to minimise that distinction. I think really that I agree with you.

1206. I have expressed no opinion?—I think I agree with the opinion that I seem to read in your mind; but my agreement, I think, largely comes from the fact that in respect of gold I fancy there is a considerable demand for it from some parts of India, and that demand is so strong that it needs no encouragement; and that in other parts of India there is an indisposition to take it, and it would be waste of trouble to try to produce a disposition to take it. I think, in fact, if I may summarise it, that the note habit is a much more teachable habit than the gold habit. It is much more, I think, a matter that can be altered by education.

1207. (*Chairman.*) If you were the Indian Government you would, I understand, desire to meet the wishes of the people as far as it is conveniently possible?—Yes.

1208. Would you prefer that they should ask you for notes, or that they should ask you for gold?—That they should ask me for notes, certainly.

1209. (*Mr. Keynes.*) I pass on now to a different point. If 20 million sovereigns in addition to those which are used at present were to get into circulation in India in place of notes or rupees, that would be at the expense either of the gold standard reserve or of the paper currency reserve?—Yes. That is a very brief statement, and I think that it might conceivably be misunderstood; but I think I agree with you as you put it.

1210. Do you think that the effect of this change, that is to say, of 20 million more sovereigns being put in circulation and a somewhat smaller gold standard reserve or paper currency reserve would be to make the Indian currency system more or less stable than it now is?—My own view—I know it is a very controverted question—is that an addition to the gold currency at the expense of the gold standard reserve would make the exchange less stable.

1211. So that would be a strong reason against wishing the people of India to take gold rather than notes or rupees?—It would be a strong reason if the difference in stability were considerable. I do not think that now or in the immediate future, or, indeed, in the future at all, there is much instability in the Indian currency system, and especially in its foreign exchanges; so that I do not regard the matter which you are discussing as one of very great importance. I should so regard it if you had been discussing it when the gold standard reserve was 10 millions or 15 millions less than it now is.

1212. I put it in this way, therefore, that when your reserves are adequate to meet all emergencies you can then spend all your resources on having a gold currency if you like without injuring stability?—We have come back to that. I think, practically, I said that almost in those words at a much earlier period of my examination. I forget in answer to whom, but I think I did say it.

1213. I put the point for this reason; the main argument usually urged against a gold currency as distinct from a gold standard is that it is uneconomical; and you would accept that, I imagine, and so would most of the advocates of a gold currency?—Yes.

1214. But the advocates of a gold currency go on to say: It may be more expensive, but it gives you something which is more stable, and is worth the extra expense?—Yes.

1215. I understand that your opinion is, that, so far from making the position more stable, it will make it a little less stable, but if you had already got good reserves that would not be a matter of very much moment?—You have summarised my view with complete accuracy.

1216. Therefore it would be an uneconomic thing to do, and would not assist stability?—Yes, but it would not matter very much.

1217. It would not matter very much if stability was insured in other ways?—Yes, that is so.

1218. (*Sir Shapurji Broacha.*) There is a great sentiment for establishing a mint in India?—So it is alleged.

1219. And the Government are willing to give in to that sentiment so far as the Government of India are concerned, according to the correspondence?—Pardon me; if you are setting up a difference of opinion between the Secretary of State and the Government of India, that I do not think exists.

1220. They are both the same, and I did not mean to imply that there was any difference at all on that point. Supposing they are willing to meet that sentiment and to have a mint established, what gold will go into that mint? Here 3*l.* 17*s.* 10½*d.* is the value of 1 oz. of gold, is it not?—Yes.

1221. 3*l.* 17*s.* 10½*d.* is equal to 934½ pence or annas?—Yes.

1222. If you take an ounce of gold in a solid bar to India, that ounce of gold will cost you 1 per cent. for freight?—I take that from you; I do not know.

1223. That would be about 9¼*d.* per ounce?—Yes.

1224. Suppose that gold is sent to the mint, it will cost an additional 10 days' interest, just as it costs here?—Yes.

1225. That will be equal to about 11*d.* or 12*d.* on the ounce of gold?—Yes.

1226. That will only give you 923*d.* when the sovereign gives the owner 934½*d.* Therefore, taking it from an economic point of view, is it not a waste of money to establish a mint? Will you take gold bars from this country, send them to the mint and only receive 923*d.* per ounce, when if you take the ounce of gold into India in sovereigns you would get 934½*d.*? No merchant or banker would do that, would he?—I should like to follow your calculations.

1227. Taking the ounce in sovereigns as producing 3*l.* 17*s.* 10½*d.*, that ounce will cost you 1 per cent. to take it to India?—That is where I am not sure that I follow you.

1228. (*Chairman.*) Assuming Sir Shapurji's figures to be correct, do you agree with his conclusion?—No. My difficulty is that Sir Shapurji seems to allow for the cost of freight on the gold but not on the sovereigns.

1229. (*Sir Shapurji Broacha.*) You may take it from me that it will cost you 1 per cent. to take an ounce of gold out there, and that will be equal to 9¼*d.* on 934½*d.*, to which you will have to add 10 days' interest while it is at the mint. As a commercial transaction who will take that ounce of gold in bars to be coined in India and receive 923½*d.* instead of 934½*d.*, which he would get if he took gold which was already coined into sovereigns?—I see a difficulty there, but I do not wish to dwell much upon it.

1230. Nobody would do it as a matter of sentiment and suffer that loss, would he?—If you are going to charge your bullion with this 1 per cent. for freight and insurance you ought to charge your sovereign equally.

1231. The price of the sovereign in India is 15 rupees?—But ought you not to assume, to make it all square, that the bullion is in India too? Why assume that the bullion is imported into India for this purpose and bears the charge of 1 per cent.?

1232. If I buy bullion and send that bullion to the mint to be coined, that bullion will cost me 15 rupees 2½ annas before I receive it in the shape of the sovereign; who would pay 15 rupees 2½ annas for a sovereign when he can buy a sovereign for 15 rupees?—Now, if I may say so, I think you have put it on the right basis, because you have eliminated the differences.

1233. If it would cost 15 rupees 2½ annas to turn bullion into a sovereign, while I can buy a sovereign outside at 15 rupees, commercially no one in India would send any bullion to the mint; therefore from which country will bullion come to India for coinage?—I agree with what is evidently in your mind. I do not think bullion would go to India for coinage, and I am bound to say that the Government of India has held that view.

1234. Last year 31 millions of gold went to India, 19 millions in sovereigns and 12 millions in gold bars. Those gold bars would not have gone to be coined because those gold bars would have cost about 13*d.*, gold bars being dearer even than bullion; therefore none of that 12 millions would have gone for coinage?—I agree. The view that bullion would be converted into sovereigns to any large extent has never commended itself to me.

1235. So whatever bullion comes to be coined will be either from Indian gold mines, or because some gold is brought out from the hoards?—Yes.

1236. I am told that the mines in India have sold ahead to London the gold bullion, as you can see from the Governor-General's letter in 1902, on page 56 of H.C. 495 of 1913, when the projected mint was given up.* I am not against a gold mint in India, but I say the machinery will have to be scrapped in five years. Do you know that sovereigns would be even cheaper coming from Egypt and from Australia in comparison with gold bullion coming from London?—Yes; that of course is a familiar fact to us.

1237. Of course a gold mint may be erected in India for the satisfaction of sentiment, but I do not see where the gold is coming from?—That is my difficulty—how much business will the gold mint do.

1238. It may be said that India prefers gold in 10-rupee pieces, but is there any data for that?—No.

1239. But there are plenty of data for a sovereign?—Yes.

1240. The sovereign has been coming into India not merely since the mints were closed but since the British Government has been established, and they have been bought as cheaper gold?—Yes.

1241. So sovereigns are more familiar than 10-rupee pieces. According to what you have placed before us, out of the 19 million sovereigns which went into India last year 15 millions went into circulation, that is, into the people's pockets?—Yes.

1242. If four-fifths of the sovereigns that you take there are taken by the people how can you compare it in popularity with this other coin; there are no data to go upon, are there?—No; there is absolutely nothing to go upon, as you say, except prediction.

1243. Then comes the difficulty which the Chairman has pointed out to you about sending out gold for the trade balance. If you send out 10-rupee pieces in gold they will be taken at the cost of bullion, and not at what they would cost to coin, so there will be another loss there?—Yes.

1244. If I take five sovereigns to the Continent I have to suffer the loss in exchange?—Yes.

1245. Then in addition to that the 10-rupee piece will be a different coin to any in the whole Empire. So if Mr. Webb sends us a message that the Karachi chamber requires the 15 rupees sovereign and not the 10 rupees gold coin, which is the latest message, is it in any way desirable to have the 10-rupee gold coin? Nobody knows about the sentiment in favour of it, because it has never been used, only two or three people on the Legislative Council have said that it would be popular. How could they make it popular

* The relevant part of this letter is quoted in paragraph 3 (v) of Appendix VI. to this Report, page 213.

when the sovereign has been popular to my knowledge—and I am a broker of 49 years' standing—and is preferred to any other coin?—The 10-rupee piece will be much cheaper to coin.

1246. How do you make that out?—That is an important point. If we had a 10-rupee piece we should just tell certain operatives in the Bombay Mint to go and coin it when they were not coining anything else; whereas if we had a branch mint for the coinage of sovereigns, as you will have seen from the Parliamentary Paper (H.C. 495 of 1913), we should have to have a separate mint with a separate deputy mint master and an assayer and a deputy-assayer and a chemist, and quite a large number of officials who would be doing very likely no work all the year round but would be drawing their salaries all the year round.

1247. I think the gold coins will cost you something?—Still, it is one thing to let the present mint-master and deputy mint-master and so on be responsible for a little additional work in the mint; it is quite another thing to let them go on doing their present work and to appoint this very large, expensive, and highly skilled additional staff to look after the gold mint in which it is possible that they would be doing practically nothing. In any case there would be a double set of salaries and working expenses to be paid.

1248. I think it is said that it would save 10,000*l.*, but I think ultimately it will cost 15,000*l.* according to the Mint reports of Australia. It will cost something to make the 10-rupee piece. India may save about 8,000*l.* or 10,000*l.* a year, but I do not think it will be very much, to compensate for the extra trouble in exchange?—There would be a considerable saving in the coining of the 10-rupee piece.

1249. I think, taking a country like India, you should put in figures what would be the saving. I say a saving of 10,000*l.* is nothing. You said that when the crisis came there were 4½ millions of gold in India, of which a quarter million went for trade purposes and a quarter million for light sovereigns, and the remaining four millions disappeared, so that only a lakh, or about 7,000*l.*, was left in the currency for about two years, was it not?—I am not quite sure that I follow your last remark.

1250. For two or three years, when the currency balances came out, there were 1½ millions in the London currency reserve and one lakh of gold in India?—If you mean gold equivalent to a lakh of rupees, I think you are wrong there. I am pretty sure that the holding of gold did not go down to so small a figure as you have mentioned, though I know it did go down very low.

1251. (*Mr. Gillan.*) It was something quite inappreciable, was it not?—Yes, but it was not so small as Sir Shapurji makes out. On 31st March 1908 there were four crores in gold; on 31st March 1909 there were only 3½ lakhs; and in 1910 there were 9 crores 3 lakhs.

1252. (*Sir Shapurji Broacha.*) That 4½ millions did not help the trade balance in India?—Not appreciably and directly.

1253. Except the quarter million which you allowed the banks to take from you for a time, and there was nothing left?—You must not overstate it.

1254. What you say is that a large demand for gold in India is better for the support of the balance of trade or for exchange. My experience of India is that so soon as the exchange goes down they sweep away all the gold that you can give them from the Currency Department?—And keep it in hoards, do you mean?

1255. They keep it; Gresham's Law would come into operation at once?—Yes.

1256. I think permission has been given to erect a mint in South Africa, which is the home of gold?—I do not think there is a mint in South Africa; but Sir Robert Chalmers would probably know.

(*Sir Robert Chalmers.*) There is no mint there yet; there used to be a mint in Pretoria in other days.

1257. (*Sir Shapurji Broacha.*) You know that South Africa is the home of gold at present?—That is so.

1258. If it were advantageous to them to mint sovereigns and sell them they would have had their mint at once, and it is certain that this Government would not deny them?—That is so.

1259. Is it not rather that India is asking too much, and asking for something that will bring her no gain? I know the sentiment is very great, and I myself have no objection to a mint, but I say it is really uneconomic?—As far as I can judge there is in India a feeling that unless India has a mint she will have been hampered.

(*Sir Shapurji Broacha.*) I think that feeling is confined to a few men who are articulate.

1260. (*Sir James Begbie.*) What measures have been taken to carry out the recommendation of the Committee of 1898 that the sovereign should be made a current coin in India?—You are familiar, of course, with the legislative enactment under which the sovereign is legal tender, and with the measures that the Government take to give sovereigns freely at currency offices and elsewhere in exchange for rupees. I should say that that exhausts everything that is of importance. I have no doubt that often when the Government has a payment to make it does make it in sovereigns in the hope that the sovereigns will remain in circulation.

1261. But so far as you know, there have been no special efforts made to encourage the use of gold?—It is really difficult to say what efforts should be made. I think I mentioned in reply to the Chairman, that for a short time in 1900 attempts were made to give people sovereigns when they would have preferred rupees. That statement had been made, and I believe it is not very far wrong. It was found to be a mistake and ineffective, because, naturally, the sovereigns came back. The present policy, which Mr. Keynes calls passive, is, I think, the only practical one.

1262. Sovereigns imported into India are, as a rule, tendered to the Government in order that rupees or notes may be issued in exchange; is it not the case that rupees are full legal tender?—Yes.

1263. And the public have been accustomed to rupees for very many years?—Yes.

1264. That accounts, does it not, for the fact that the sovereigns when imported are presented for exchange either into rupees or notes?—Yes. I merely mentioned it as showing that at the present stage of India's development and the taste for gold, the natural destination of sovereigns imported into India is in the first place to go into the paper currency reserve; but I realise, of course, that it goes out again afterwards.

1265. If some of them are sent up into the districts in the interior of India it is very difficult, is it not, to get them exchanged? The only place, I think, where they can be exchanged at par is at the Government treasury, and very often that is some distance off, as there is only one Government treasury in a large district?—I gather from the reports of the Paper Currency Department that the difficulty of getting a sovereign exchanged without paying for the exchange is very slight, and that in that respect a sovereign is more convenient to a holder in a country district than a note, because you usually do have to pay a trifle to get a note changed, but you do not have to pay a trifle to get a sovereign changed.

1266. That remark was made, I think, with regard to special districts, was it not?—I dare say. I read it a short time ago, and I thought then it was of general application.

1267. Do you not think a sovereign is a high unit for a gold coin in India?—Yes, and I should say that is one of the reasons why there is not so much substance as might appear in the doctrine that India ought to become much more than it is a sovereign-using country. I think there has always been that natural limitation to the use of the sovereign in India that is implied in what you have said.

1268. Do you not think the fact that sovereigns have been absorbed so largely in recent years shows that gold coinage is suitable for India?—Yes, certainly. It shows that people in India are glad to have gold in India at their disposal.

1269. Might not a gold coin of smaller denomination than a sovereign be reasonably expected to extend

the use of gold amongst a more numerous class of people?—One can never tell. In a matter of this sort what one would like to know is the answer to the question that is always asked: Is there a desire for a 10-rupee piece or other such gold piece in India? Is there a popular widespread desire? But then no one knows the answer to that question; at least I think not.

1270. I think you made the remark to-day that the gold in circulation is of very little use in supporting exchange; but for that purpose it is to be preferred, is it not, to token silver coins?—Yes. If token silver coins are not backed by either a central Government reserve or a banking reserve, they are of no use whatever for the support of exchange, except of course as bullion.

1271. (*Sir Robert Chalmers.*) Do you really maintain that sovereigns in waistcoat pockets really are a support to exchange?—No. Sir James was putting to me the question whether I had denied that they were a support to exchange, and I think we have got to this point, that in my view they are a very slight support to exchange, but they are not so useless for the purpose as overvalued tokens.

1272. The experience of 1907 would appear to show, would it not, that given a fall in exchange you would lose gold rather than derive any support from it for exchange?—Yes. That experience, so far as the export figures go, would appear to show that about 6 per cent. of the gold that we lose does serve to support exchange.

1273. Only 6 per cent.?—Yes, but the other gold possessed by the Government might have afforded indirect support. I do not want to go into that unless the members of the Commission may desire me to do so, but I think Sir James understands, just as you understand, that my general position in the matter is to minimise the importance of the gold in actual circulation for the support of exchange. I think you understood, Sir James, that I was minimising it?

1274. (*Sir James Begbie.*) Yes, but I understood also that you rather favoured the extension of the silver coinage?—No. Perhaps you would explain in what connection?

1275. In this connection; the great trouble in Indian exchange arises from the fact that there is such an enormous volume of token coins in circulation?—That is a view which has often been put forward, but which I find the greatest difficulty in accepting. I think the connection between the volume of token coinage and the stability of exchange is very remote, as indeed is shown by the fact that now at this moment the token coinage is of greater volume than ever before, and I think one might almost say that exchange is more stable than it ever has been. According to my view, as I tried to put it in answer to another member, the stability of the exchange depends on trade conditions, and the trade conditions may be affected, I admit, but are slowly and indirectly affected, if at all, by changes in the volume of currency.

1276. (*Sir Robert Chalmers.*) Do you mean external conditions?—I should apply it both to external and to internal conditions, but I venture to say that it has more application to external conditions.

1277. (*Sir James Begbie.*) Of course I quite understand that at the present time the quantity of popular silver coinage in circulation does not affect the question of exchange; but in a time of unfavourable trade balances, when the balance of trade goes against India, the question of the quantity of silver coins becomes a serious matter?—I do not wish to set up a special doctrine of my own, but I do maintain that the importance of the mere magnitude of the token currency for the purposes that you mention is habitually exaggerated even by many authorities for whom generally I have the highest respect.

1278. The question of the half-sovereign has been mentioned to-day; that in India is valued at 7½ rupees, as you know, I think?—Yes.

1279. Do you think that that is a suitable value as a unit for a gold coin?—Do you refer to the fact that it is a broken sum?

1280. Yes?—I cannot tell; you know much better than I do.

1281. It is very little used, as a matter of fact?—It may be that the fact that it is for a fractional multiple of the unit may be one of the causes of its not being used; I do not know about it.

1282. The fact is that it is a very awkward unit of value, and therefore it is not so much used?—I take that from you.

1283. Another point mentioned to-day was the question of sovereigns coming in from Australia or Egypt; of course these would come in much cheaper than from England?—Yes.

1284. But the quantity obtainable in Australia and Egypt is limited?—Yes. It varies enormously year by year; sometimes Australia has many million sovereigns to part with, and sometimes very few.

1285. (*Mr. Gillan.*) I think there was a discussion at one time, was there not, about the advisability of importing half-sovereigns?—Yes, there was what we call in the India Office a demi-official discussion, I think, between Sir James Meston and myself. At that time I think Sir James Meston was rather in favour of importing the half-sovereign; I was against it.

1286. I did not know exactly what form the discussion had taken, but on the whole the conclusion was, was it not, that there were reasons against large imports of half-sovereigns on the ground that there were many light-weight half-sovereigns, and that they would lose more by use in India and so on?—There were those considerations. Then there was a further rather general consideration that on the whole the Government had better not enlarge its functions by becoming an importer of gold coins, and that it was better that gold coins should be imported by other people. Then there was another consideration which may sound unpractical, but really I think it is very practical. It was suggested at first that it would be worth trying the experiment to see what became of half a million or a million half-sovereigns if they were imported into India. I felt very strongly when I took part in this demi-official discussion that it was no good trying the experiment unless you could judge the results. If at the beginning of a year you put a certain number of half-sovereigns into India, there is no reasonable chance of your being able to find out at the end of the year what had become of them. It is a subject on which inquiry of any value could scarcely be made. Finally, I may mention this, in case you are interested in it. We got some of the exchange banks which import British gold coins to undertake to import some half-sovereigns as well as sovereigns—hitherto they had imported boxes of sovereigns. I think they have imported half-sovereigns, but I have read somewhere, I forget where, they are not popular.

1287. I take it that the imports of half-sovereigns into India in any case have been exceedingly small?—Yes, but they probably have been growing.

1288. Have you any figures to show how many half-sovereigns have been available in India, supposing the people wanted them?—No. The trade figures show the British gold coins, sovereigns and half-sovereigns, mixed up.

1289. I only asked that because an inference was based on it regarding the popularity of the half-sovereign, and I did not know to what extent they actually are available?—I cannot say.

1290. About the attitude to be taken by Government with respect to different forms of currency; I think it was perhaps suggested that there was some difference in respect of gold and gold currency notes?—That is so.

1291. The position is, is it not, that these currency notes are encashable only at about half a dozen centres in England?—At eight, I think.

1292. At other centres they are naturally liable at any time to go to a discount?—Yes.

1293. And any action that Government could take would be in the direction of making them encashable at more places?—Yes.

1294. Would that not be somewhat in the nature of removing an obstacle in the use of currency notes?—Yes.

1295. Rather than directly encouraging them, so to speak?—If Mr. Keynes were arguing it with you, he would say that it is equally possible either to give or to withhold facilities for the changing of sovereigns into rupees.

1296. May I put it in that way—that this would be removing an obstacle and putting the note on an equality in the matter of discount with the sovereign?—No. It would be giving the note an advantage. The sovereign is encashable—that is to say, you can get rupees for sovereigns at about three places in India. What the Government does is, I think, to push the note a little more than it pushes the sovereign; it gives the legal right to encashment of the note at about eight places, but the legal right to encashment of the sovereign into rupees is given at a smaller number of places.

1297. As a matter of fact, the sovereign is encashable into rupees anywhere, is it not?—Not by the action of the Government.

1298. No, but it carries its value with it?—Quite so.

1299. With regard to the gold mint, the subject was dealt with at considerable length, was it not, in the last financial statement of the Government of India?—Yes.

1300. And the reasons why the Government of India recommended it were given there by Sir Guy Fleetwood Wilson?—Yes.

1301. That is the last expression of opinion of the Government of India on the subject?—Yes.

1302. (*Chairman.*) Will you hand in that financial statement of the Indian Government, so that we may have their latest expression of opinion?—I will hand in a copy of what Sir Guy Fleetwood Wilson said.*

1303. (*Mr. Gillan.*) I take it that your general position is that in the matter of gold it is better to increase our reserves than the gold circulation?—Yes; but I would not want the increase in the gold circulation to be stopped until the reserve had reached the particular sum.

1304. No, but that is your general tendency?—Yes.

1305. In this despatch No. 59, which the Government of India sent home on the gold mint, it is stated in paragraph 23 (*see* page 62 of H.C. 495 of 1913) that they look forward to the effect of the establishment of the mint being "to swell the volume of "sovereigns in the hands of the people and increase "their active circulation. Of the advantages of such "an increase in the circulation we have already "spoken. It diminishes the pressure on the Govern-"ment of India for the coinage of silver. It keeps "down the heavy responsibility that rests on them "for the convertibility of the rupee, and thus sim-"plifies the problems of exchange." That, I take it, you do not agree is an objection to establishing the mint?—I do not think it has very much force in it; I will not say there is no force in it, but I am not very much impressed by the argument, I think.

1306. As regards the sentiment which has been expressed in favour of the gold mint, it is perhaps rather illusive, but I want to know exactly what you think of it. Suppose it is put in this way, that India is a very big country, that it has already very large financial interests and commercial interests, that in India both gold and silver are established as legal-tender coins, that you may at any time have a flow of gold from coinage to bullion, but at present there is no facility for the counter-flow of gold from bullion into coin, and that considering the largeness of Indian interests, some facilities of that kind should be established on the spot. Putting it on those general lines, what would you say to that sentiment, as you call it, or feeling?—I can understand that that line of argument which you have developed would appear convincing to some. I do not think that the correctness of your argument has much to do with the existence or non-existence of the sentiment, which, being a sentiment, would have little to do with any reasoning process. Taking the argument which you are developing as a mere reasoning, I should say that whether it is conclusive or not depends on one's view as to the facts. I think all the facts seem to indicate that the people who have gold bullion in India have it because they want it in that form as is suggested in paragraph 2 of Lord Crewe's despatch of the 18th October 1912.* I see nothing to support the view that if they had the opportunity of getting it coined they would have it coined in any large quantity. If a sentiment such as has been alleged really exists and is widely spread, I do not think it rests on that logical foundation. It probably rests on the feeling that it is a fine thing for the inhabitants of a particular country to handle the coin which was minted at the mint of that particular country, You remember probably that the issue of coins is one of the attributes of sovereignty, and possibly an Indian would feel proud that his country should do the issuing of coins in the most noble of metals. I should think that that, which in me personally would not call forth much sentiment, probably is at the bottom of the sentiment rather than the good reasons which you have given.

1307. Suppose you put it on more purely political ground; suppose a sentiment of this kind among what Sir Shapurji has called the articulate Indian public, and that they feel that if any one of the self-governing Colonies, we will say, had asked for a mint it would have been given it as a matter of course, and that something is refused to India which would have been given in the other case, do you think that is a sentiment which, we will say, ought to be humoured?—Yes, I think that one has to recognise a sentiment of that sort. But then I look ahead, and think what will be the position of the sentimentalist, if I may use that word in the non-disparaging sense, if the mint is opened and costs, say, several thousands a year, and in the first year it coins, say, 15,000 sovereigns and in the second year 10,000 sovereigns and so on until a sovereign and more is spent on coining a sovereign, and if after some years of that the mint, as Sir Shapurji says, is scrapped because it is so ridiculous to have an expensive mint which does no business; I think you will probably be, I was going to say, outraging, injuring and wounding the sentiment of the classes that are spoken of, more than they would be wounded by the refusal of the mint now.

1308. Now about the amount of gold that is likely to come to the mint. Take what happens in a bad time of scarcity with an unfavourable exchange; it is the sovereign which is valued at a premium, is it not?—Yes.

1309. It is worth perhaps 15 rupees 2 annas, or 15 rupees 4 annas?—Yes.

1310. There is no likelihood of a sovereign then coming out, or of anyone bringing gold to the mint to be coined?—That is so.

1311. So it is not in those unfavourable seasons that we can expect any coining to be done?—That is very true.

1312. Take the contrary case in which you have got a strong exchange, and when there is a very strong demand for currency; at that time the chief demand is not for gold—for sovereigns—but for silver currency, is it not?—Yes, that is so.

1313. At that time it costs more than 15 rupees to land a sovereign in Bombay?—Yes.

1314. That is shown, is it not, by the fact that the exchange banks do, in point of fact, import a great number of sovereigns from abroad?—Yes.

1315. At the same time you have got a large quantity of bullion in the country?—Yes.

1316. Is it not at least conceivable that when the demand is for currency some of the bullion would come out of the hoards held in the country and be presented at the mint?—Yes. Now we have got away temporarily from the question of sentiment and have got back to the question of the convenience of the Government and of the commercial public. May I say, without appearing as though I were trying to be in any

* Not printed. *See* pp. 16 and 17 of "East India—Financial Statement and Budget, 1913-4" (H.C. 130 of 1913).

* H.C. 495 of 1913, page 65.

way epigrammatic, that what you have put is that the opening of a gold mint would probably have the effect not of giving India sovereigns when she might be calling for them, but of giving her sovereigns just at the moment when she is extremely likely to be embarrassed by having too many of them; because the time you are speaking of is a time of a great inflow of sovereigns imported by the exchange banks, and India is rather embarrassed, and the Government is rather embarrassed, by having to receive too many sovereigns and give out in exchange for them too many rupees.

1317. That is not precisely my point. There is a great demand for sovereigns in order to unlock the silver mints and get out the rupees, and the business is run upon a very fine margin. These exchange banks are always looking about for a place where they can get these means of unlocking the mints most cheaply; and it might happen that the cheapest method to them would be, instead of importing sovereigns, to get the bullion which is in the country and have it minted?—It might be, but I see no special reason for supposing it would be. There are very great advantages which they enjoy at certain periods of the year in the Australian exchanges which compensate them for the cost of sending sovereigns from Australia to India, and which are nearly equal to the cost of freight and insurance. I should have thought that it is very doubtful whether they would find it advantageous to an appreciable extent to get their gold currency in that way.

1318. Are we quite justified in prejudging that question?—No, but if that were to a great extent the business foundation of a scheme for setting up a gold mint at an appreciable annual cost, it would be a rather slight foundation. I will not go further than that, but I think up to that point I can properly go.

1319. (*Mr. Keynes.*) Is this your position, that on the kind of occasion which Mr. Gillan is thinking of, the people would not be wanting to buy sovereigns, but they would be wanting rather to sell their gold?—At first I dealt with Mr. Gillan's question on that point, but now I see that what he is putting to me is this: the exchange bank would have two sources of supply—Australia and the possessor of gold bullion in India—and he is asking whether I think that the cheaper source of supply would not be the latter. My answer is that it might be, but there is much uncertainty about it.

1320. That is the same point, is it not; it would be meeting the convenience of the people in India who wanted to sell gold?—Yes.

1321. (*Mr. Gillan.*) It is the case, supposing a special Indian coin were adopted, that the cost of running this gold mint would be very small?—Yes, that is so.

1322. I do not know if you have got in your mind any other disadvantage against the gold mint than those we have been discussing?—No. I think the only things against it are, first, that if it were for sovereigns it would be comparatively costly, and secondly, that it might by its failure to attract a large amount of gold for coinage, wound that very sentiment that it is intended to please.

1323. Putting aside that sentiment, the suggestion of this new coin, if it were adopted, would enable the bullion in India to be coined at a small expense?—Yes, certainly.

1324. (*Sir Robert Chalmers.*) Would it not be cheaper to have bullion tendered without its going through the mint?—It was the practice formerly that the Government of India received bullion, but they rescinded the notification under which they received it, and I think they were fairly well justified in doing so, because it was rather a nuisance for Government to have to receive gold bullion in exchange for rupees, and not to have any means of dealing with bullion except either selling it or sending it home.

The witness withdrew.

At the India Office, Whitehall, S.W.

FIFTH DAY.

Thursday, June 12, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord Faber.
Lord Kilbracken, G.C.B.
Sir Robert Chalmers, K.C.B.
Sir Ernest Cable.
Sir Shapurji Burjorji Broacha.
Sir James Begbie.
Mr. Robert Woodburn Gillan, C.S.I.
Mr. Henry Neville Gladstone.
Mr. John Maynard Keynes.
Mr. Basil P. Blackett (*Secretary*).

Mr. F. W. Newmarch called and examined.

1325. (*Chairman.*) You are Financial Secretary to the India Office, I think?—I am.

1326. How long have you held that position?—I have held that position since 1911; before that I was Assistant Financial Secretary since 1902; and before that I was in the Military Department. I have been in the Finance Department since July 1902, with the exception of a very short interval when I was Secretary in the Public Works Department.

1327. I understand that you are prepared to give evidence on two subjects with which we are concerned, namely, on the question of the sale of Council bills and telegraphic transfers, and on that of the paper currency reserve?—Yes.

1328. Do you propose to offer evidence on any other points?—I have no desire to offer evidence on the other subjects within your reference. I think you will have very full evidence on those from other witnesses.

1329. You have prepared have you not, memoranda on those two subjects, which we have before us?—Yes.

1330. Those I propose to take as part of your evidence and to print with our proceedings. (*See* Appendices VII. and VIII.) Taking first the paper relating to Council bills and transfers, the sale of these dates back I see to the time of the East India Company?—Yes.

1331. Is the practice of selling bills and transfers in excess of the actual immediate needs of the India Office, equally old?—I can find an instance in the year 1863–4. In that year the actual drawings exceeded the Budget estimate of them, and also of the

home charges, by more than 3½ millions, or more than 65 per cent. Commenting on this in the Financial Statement of the Government of India, Sir Charles Trevelyan, Finance Member, said, "The sale of the "Secretary of State's bills has given great relief to "trade by obviating the necessity for the remittance "of an equal amount of bullion from England." There are not very many years about that period in which the drawings largely exceeded the Budget estimate. In the period 1872–3 to 1898–9, sales were very much affected by the decline in exchange, and the Secretary of State had many times a difficulty in drawing, or was unable to draw, the whole amount for which he had budgeted. But in the two years 1881–2 and 1883–4, the estimates were exceeded. In the first year the home charges were 14,325,600*l.*, the Budget estimate of the drawings 17,200,000*l.*, and the actual drawings, 18,412,429*l.* In 1883–4 the home charges were 13,911,800*l.*, the Budget estimate of drawings 16,300,000*l.*, and the actual drawings 17,599,805*l.* There were not many other years about that time in which the drawings exceeded the estimate, because the great fall in exchange rendered it impossible. Then we come to the year 1898–9, when I find a Minute by Sir James Westland, who was then Finance Member to the Government of India, which was laid before the Fowler Committee, and perhaps I might read you a passage from it. He said, "The distribution of Council bills over the twelve "months remains entirely in the hands of the Secre- "tary of State; we in India give him from time to "time our recommendations, and especially advice "as to the amount we can make available for his "drawings; but as the primary object of the Council "bills is to place him in funds for the expenditure "which he has to undertake, we leave it to him to "consider when drawings may be eased off for want "of commercial demand, or increased to meet "commercial demand. At the same time we are "quite aware that the policy of the Secretary of "State in the matter is the same as our own, that is, "to draw during the 12 months as much as we can "meet." Since that time we find frequent references to the same point. Perhaps I might quote you one passage if you will allow me, from the Financial Statement for 1906–7: "The drawings of the Secretary "of State have largely increased during the past three "years, the average sales from 1903–4 to 1905–6 "having been 26,620,000*l.* against an average of "17,620,000*l.* during the previous five years. This "increase does not correspond to any equivalent "expansion of the Secretary of State's requirements "on revenue account (which constitute the home "charges proper) though there has been some growth "of the latter also. It is due primarily to the great "demand for remittance to finance the export trade "of India which has developed very largely of late. ". . . . The policy of Government has been to "sell Council drafts freely so as to supply the trade "demand to the fullest extent up to the limit of our "capacity to meet them." One can find many passages like that embodying the same policy.

1332. You would agree, I suppose, that it is unusual for any Government to do business of that kind?—I suppose it is unusual. The practice has existed for over 50 years. I think what we are doing is very similar to what, in the same direction, an English company doing business in India does; it has to draw its profits home, and it just deals with exchange to the extent that it seeks for the best opportunity and the best rate it can get in the year for drawing its funds home.

1333. In the passage which you have just read, the writer, I think, spoke of drawing in excess of the current demands of the Secretary of State for revenue?—Yes.

1334. The distinction between his demands for revenue purposes, that is, for the current expenditure of the year, and for capital purposes, is important?—Certainly.

1335. Does he draw in excess of his demands for both current expenditure and capital purposes?—I think so, certainly. I think one might put it this way—that when any country has any surplus of revenue over expenditure, such a surplus is properly applicable either to the reduction of debt or the reduction of borrowing. India is a regular borrower, and she must borrow every year for public works. It can only be a question in India's case, not of actually reducing debt, but of reducing borrowing. The borrowing has to be done mainly in this country, and therefore the surplus revenues which are available, must, I think, be remitted to this country for that purpose.

1336. My question to you was whether he sold in excess of his requirements, both on revenue account and on capital account?—He may in any one particular year. I think the recognised principle is really this—that there is a certain standard balance with which the Government of India think that they ought to close the year, which is put at about 12 millions or 12½ millions, and if they see their way to finishing the year with a larger balance, then it is considered right that those balances should be drawn home to this country if the state of exchange permits of their being drawn home profitably, although they may not be required in that particular financial year for either revenue or capital purposes. It is so much ready in advance, and if the exchange is favourable, we can get it home one year in anticipation of the needs of the next year; then we have so much less to draw in the next year, and the less danger of a drop in exchange by overselling.

1337. The governing factor being really that the Indian Government is a continual borrower in London?—Yes, we have to borrow in London, and we have to incur the major part of our capital expenditure, that is to say, on railways, rolling stock, and all that kind of thing, in England. If India could produce its own rolling stock, its steel rails and so on, as I hope it will do some day, to a much larger extent, then the balances would not need to be remitted home, but they could be used in India for capital expenditure there.

1338. Wherever you can, you do deal in India now in preference to borrowing on this side, do you not?—India borrows on a small scale; for instance, she seldom borrows more than three crores in a year, but she is able to borrow those three crores on much more favourable terms than we could borrow here.

1339. Why then does she not borrow more there?—I think that is a question for consideration, and I may say it is one which the Secretary of State has brought to the attention of the Government of India recently. At the same time I think the Indian market is narrow, and that it would not admit of the borrowings in India being very largely increased.

1340. Just give me the reason for that last observation of yours—that it would not admit of the borrowings in India being largely increased. Is that because the charges for which you borrow have to be met on this side, or because, in your opinion the amount of money that would be lent in India is inconsiderable?—I meant that the amount of money available for investment is limited. I think India can meet a three crore loan, that is to say, two millions, very easily, and possibly a four crore loan might be raised easily; but if you tried to raise the borrowings in India to any very large scale, you would damage the rate at which the borrowing could be done.

1341. When selling Council bills and transfers how do you determine the minimum rate for any given week?—There is one absolute minimum, which is 1*s.* $3\frac{29}{32}$*d.*; that is considered to be the gold point, and the Secretary of State rigorously stops at that point and does not sell his bills below that. When you come to any minimum short of that, I should say it is a matter of discretion, and it is determined by the conditions of the time, whether the Secretary of State's demand for money from India is a very urgent one or not a very urgent one; and also I think some consideration has to be given to the dearness or cheapness of money in India; for instance, if the bank rates in India are very high I think that is rather a reason for selling more freely, even if the rate of exchange is not very good, than we would otherwise do.

1342. When you have sold the amount which you have offered for sale on a particular Wednesday, what is your reason for selling intermediate bills in the

course of the week following?—We charge a somewhat higher price for them. We offer to sell intermediates at $\frac{1}{32}d.$ higher than the rate at which we sold the bills on the Wednesday, or, at any rate, at which we sold part of the bills on the Wednesday, so that we get a little extra profit in that way. I think from the point of view of the public these intermediates are a very great convenience, because a great deal may happen between one Wednesday and another. A sudden demand may spring up in India for money, and a great amount of money can be remitted to India by telegraphic transfers, say, between one Wednesday and another. That is a very valuable convenience, especially when our rate is at its maximum. Then there is the other consideration, that if they apply for an intermediate, or a special, as we call it, they are sure of getting the whole amount they apply for, so long as the Secretary of State has not sold up to the limit up to which he means to sell intermediates—for he has a limit, although that is not definitely announced.

1343. He does not bind himself then to sell an indefinite amount?—No, except when the rate gets to its maximum, and then he sells without limit. In this way I say it is a convenience, because the buyer of a bill can be sure of getting a certain amount instead of getting, perhaps, only half of what he applied for, or a tenth, or something like that.

1344. Does that not have a tendency to keep down the tenders on the regular Wednesdays?—No, I think not, because we always charge, as I say, $\frac{1}{32}d.$ more for these intermediates than we have done on the previous Wednesday.

1345. Supposing a man knew that if he did not get the bills on Wednesday he would not have another chance till the following Wednesday, would that not induce him to put in a higher tender than he puts in now when he knows that he can always get the full amount he wants within $\frac{1}{32}d.$ of the rate at which they were allotted on the particular Wednesday?—It is a good price for the certainty, I think, and it is a great convenience to the market. I do not think it affects the demand on the following Wednesday.

1346. I understand that all the sales are approved by the Finance Committee and by the Council?—They are after being done.

1347. Is that a purely formal proceeding?—Of course, as regards what has been done on Wednesday it must be a formal sanction; but the presentation of those figures affords an opportunity for members of the Finance Committee, and afterwards members of the Council, who have not had a part in this, to offer their views and to make suggestions if they think fit as to future sales.

1348. In some circumstances I see that you sell bills or transfers against gold in transit from either Australia or Egypt?—Yes.

1349. I do not quite understand why that is done, although it is mentioned in your memorandum (paragraph 11 of Appendix VII., page 218); perhaps you would explain it to me a little more clearly?—This practice was begun in December 1905. Before that time it had been the practice of the Secretary of State to hold a certain amount of gold—I think it was the fixed practice at that time to hold five millions of gold—in this country, which might be used for the purchase of silver, and it might be depleted in that way. Supposing we depleted that stock it might be useful to bring home more gold; it is a cheaper method, if we want to replenish our stocks of gold here, to buy gold in transit rather than to ship it from India, because we save the cost of insurance and freight. They cost us nothing if we buy it in transit, because we give to the seller of the gold a transfer on India of the equivalent at 1*s.* 4*d.*, so we practically buy the gold at par. He gets just the same number of rupees for his transfer—it may be a transfer, say, of 15 lakhs—as he would for 100,000 sovereigns, and we bring the gold to this country free of charge practically. It all rests upon the assumption that we want to bring gold here. But there is a still more advantageous method by which we can increase the amount of gold or replenish the amount of gold we hold here if necessary; that is, by earmarking gold against sales of transfers in the ordinary way, for instance, transfers at 1*s.* $4\frac{5}{32}d.$ When the occasion arises that it is not convenient for the Government of India to meet our bills or transfers from their Treasury, we practically effect a transfer of currency money from India to this country instead of a transfer of Treasury money, and we then practically buy the gold at 1*s.* $4\frac{5}{32}d.$ probably instead of at only 1*s.* 4*d.*

1350. You earmark the gold part of the paper currency?—Yes.

1351. And you lodge the gold with the Bank of England?—Yes.

1352. And issue additional notes in India against it?—Yes.

1353. As you have explained, the Secretary of State does draw money in excess of his immediate needs?—Yes.

1354. And in anticipation of future requirements?—Yes.

1355. What have you to say as to the effect of that upon Indian trade and commerce; does it reduce the amount of capital available in India?—I think not, because every sale of a bill or transfer releases so much money which is locked up in the treasuries of the Government of India, and puts it on the market. It has the same effect on the market, I think, as a shipment of sovereigns, except that the sovereigns go on the market direct, whereas the money represented by the Secretary of State's sale of a bill or transfer is paid out of the Indian treasuries.

1356. I understand you to say that the reason why the Secretary of State does not stop selling bills as soon as his own immediate needs are satisfied is, because of the uncertainties of exchange in the first place, that he is glad when opportunities offer to guard himself against a future fall?—Yes.

1357. And, in the second place, because it is found convenient and helpful to Indian trade that he should sell the same?—Yes.

1358. Are there any other reasons for that course which he pursues?—I think the real underlying ground for the whole system is what I have referred to before, that if India holds surplus balances as the result of very prosperous years, such as India has had recently, the proper disposal of those surplus balances is for the avoidance or reduction of debt, and the natural thing is to bring them home here. I might instance the case of the present year. The balances of the Government of India have risen to a very high level—they were over 19½ millions at the beginning of the current year—and our balances were over eight millions. According to the Budget, those balances will be reduced by over 11 millions in the course of the present year—the balances in India will be reduced to about 12½ millions, and our balances will be reduced to four millions. Those 11 millions will go towards the reduction of borrowing.

1359. Take those 8 millions; how long have they been here waiting for what I may call their permanent employment—I do not mean to suggest that they have necessarily been entirely idle?—As I say, we started this present year with balances of a little over eight millions, and we budgeted to reduce them to four millions; so those four extra millions have been lying here.

1360. Is there any reason why they should not have lain in India until they were required?—Only, I think, that reason of the question of exchange—that our policy must be to make hay while the sun shines.

1361. In fact, the apprehension that if you do not move them to this side when you can, you may not be able to move them to this side when you need them?—Quite so; and that they may when they are here serve as a resource against a fall in exchange. In fact, I think the same argument applies as to holding the paper currency reserve and the gold standard reserve funds here; they all serve the same purpose in meeting an exchange crisis.

1362. A large part of those balances is lent out here in London?—Yes.

1363. It is not unnatural that when rates are high in India that should give rise to criticism in that country, is it?—No; I can understand that.

1364. Do you think anything can be done in India's interest to meet that criticism?—I have very little first-hand information, but I understand that the balances in India might be lent out to the advantage of trade to a moderate extent, and during a very short period of the year. But then one finds opinions absolutely opposed to that, as, for instance, Mr. James Annan Bryce said in the House of Commons a few months ago that the idea of lending money in India was an absurdity.

1365. On what grounds?—Perhaps I might quote what he said for what it may be worth: "The idea of "employing the Government balances in India is an "absurdity. If they did use them there the value of "money, which is at present on the average rather "higher than the value in London, would fall below "the level of the market money here, supposing the "balances continued as they are at present. I noticed "a case this morning of the violent fluctuations which "take place in the money markets in India. The "rate of the Bengal bank was at 8 per cent., and "to-day it is at 7 per cent., and money is really not "lendable in India at over 5 per cent. The reason of "that is the failure of the autumn rains in the Punjab, "with the result that the supplies of wheat have been "very small and exports from Karachi have in conse-"quence ceased."* I do not profess to offer that as my own opinion. I think the more general opinion is that the balances in India could be lent during a portion of the year, though only to a moderate extent.

1366. (*Mr. Gillan.*) What is the date when Mr. Bryce made that statement?—13th February 1913.

1367. (*Chairman.*) In paragraph 21 of Appendix VII., pp. 220–1, you deal with the sale by the Secretary of State of bills in excess of his requirements, and I think you point out that he not only sells in excess of his own requirements, but that he has sometimes sold bills in excess of the power of the Government of India to meet them out of their ordinary resources?—Yes.

1368. The justification, as I understand, for this is the convenience of trade?—Yes.

1369. You quote what happened in 1900 as a proof of the desire of the commercial community that this practice should continue. In paragraph 24 of Appendix VII. (page 221) you quote from a communication from the Associated Exchange Banks of Bombay a protest which I observe was directed against the sudden withdrawal of facilities. They telegraphed to the Government of India on 16th January 1900, that "Acute financial stringency "prevails, caused by sudden withdrawal without "previous notice of facility granted 21st January "1898. Banks respectfully protest against the sudden "withdrawal and beg immediate steps be taken to "relieve critical situation and avert panic." What the banks appear to have protested most against was the sudden withdrawal without notice?—Yes.

1370. Do you think their opposition would have been equally strong if proper notice could have been given?—I do not think the opposition would have been equally strong, and I do not think the inconvenience would have been so great, but I think it would have been felt seriously all the same. The demands for remittance to India spring up very suddenly, and I am convinced that no other means of remittance would have enabled the banks to meet such sudden demands as easily and with so little disturbance to trade as the means afforded by the free sales of the Secretary of State's telegraphic transfers. The banks would have to meet the anticipated demands for money on a large scale by shipments of sovereigns, and these would have to be arranged fully three weeks in advance of the anticipated demand; but forecasts so far ahead are very uncertain. The Bank of England would very likely put its rate up in self-protection, and then there would be stringency of the money market both here and in India. I would in confirmation of that ask the Commission to be so kind as to look at Table V. and the diagram attached to it in Appendix VII., page 237. You will see that there is a line which goes up into a peak something like the Matterhorn. You will also see that for the four weeks ending December 1911, sales of only about 42¼ lakhs satisfied the requirements of the market, but three weeks later just under 150 lakhs were sold in one week, and in the following week 230 lakhs, more than 1½ millions, mostly at maximum rates. Now, had it been the declared intention of the Secretary of State to limit his sales in December, January, February, and March 1912 to, say, 40 lakhs a week, no doubt the banks would have prepared themselves to some extent by shipments of sovereigns in December and onwards for anticipated demands in January and February; but I do not think they would have been prepared to meet the extraordinary demand that arose, or would have met it with anything approaching the ease and convenience afforded by the Secretary of State's sales of telegraphic transfers. We must remember that these free sales at a high premium are a source of profit to the Exchequer, while heavy shipments of sovereigns to India might possibly result in sovereigns having to be shipped back on Government account for the purchase of silver, at the expense of freight and insurance.

1371. The Government of India and the Secretary of State take a heavy and an unusual responsibility upon themselves, do they not, in the task which they have assumed?—Perhaps that is so. I think it is in the interests of India that they should consider the interests of trade as much as possible, as it affects revenue so largely, and the general prosperity.

1372. Does any other Government play a similar part in regulating the exchange of the country for which it is responsible?—No, I suppose not.

1373. You would not say that the circumstances of India are profoundly different from those of other countries, would you?—I think our whole position is unique; but I venture to think that this system of selling freely to meet the demands of trade works satisfactorily.

1374. In paragraph 22 of Appendix VII., page 221, you have explained in a note on the Act of 1898 the arrangements that were made for authorising the Government of India to issue notes against the gold held as part of the paper currency reserve in London to which you have already referred; would it be fair to say that that is really a way of introducing elasticity into the paper currency system, its effect being much the same as if you were to make a fiduciary issue of notes?—I admit it was somewhat similar to an increase of the fiduciary portion of the currency reserve, and in that respect its effect was similar to the arrangement under the notification issued by the Government of India some five years earlier, by which they agreed to issue notes against gold. That was before gold was made legal tender. When gold became legal tender I think both those arrangements ceased to have a quasi-fiduciary character. I think that this arrangement under the Act of 1898 was not directly intended to enlarge the currency reserve, but that it was intended to enable the Government of India to meet the Secretary of State's drawings at a time when there was a tremendous demand for them, and at a time when the Treasury balances were not strong enough to enable them to meet them from the Treasury. That was the real object of the Act in the first instance.

1375. Have you ever considered the possibility or desirability or otherwise of handing over the paper currency to a central bank?—One has heard of that question, of course, a good many times, and I was proposing to give you some information about it in connection with the paper currency reserve.

1376. Very well; I will not pursue that now. You say in paragraph 25 of Appendix VII. (pp. 221–2) that it is as important to keep exchange from rising above the gold point as to prevent it from falling below the gold point; I think Mr. Abrahams told us the same thing. Supposing the Secretary of State were to cease to sell bills without limit, would there be any danger of a rise above the gold point being more than purely temporary?—No, I think not, because no doubt shipments of gold would soon relieve that. The protest to the Government of India to which I refer in that paragraph had

* Official Report, House of Commons Debates, vol. 48, page 1308.

reference to a temporary forcing up of the exchange to 1s. 4⅛*d.*

1377. You have spoken in your note of the objection to an excessive accumulation of gold in the paper currency reserve, and you have spoken also of the possible necessity and expense of shipping gold home to relieve such accumulation; what is the objection to the accumulation of gold?—In the passages to which you refer I, perhaps, rather transferred into the present ideas that have been held in the past. The view as to the proper amount of gold to be held in India has been constantly changing. At first, I think five millions was regarded as a sufficient amount to hold, and an amount at which, when it was passed, the Government of India should begin to think about coining silver. Then the limit was raised to seven millions, and then it was advanced beyond that. I think the idea of the present time is practically expressed in a passage of a despatch from the Government of India in which they said: "Subject to the provision of sufficient rupees and reserves "of silver, we would allow our stock of gold to grow "indefinitely with the expansion of the note circula- "tion, until such time as it may be deemed expedient "to make a further addition to the invested portion of "the reserve." So I think our present view is this: We regard a certain quantity of silver as necessary, and then the amount of the invested portion of the reserve is fixed for the time being by an Act of the Government of India; at present it is 14 crores, but an Act can be passed at any time enlarging that amount. We have got 14 crores fixed at present as the invested portion, and then we have a formula as to what shall be the proper amount of silver, and then, provided that sufficiency of silver is maintained, I think the present view is to regard without any apprehension any increase in the gold portion of the reserve; in fact the gold portion of the reserve is the really elastic portion, as it expands with the demands of trade, and has grown enormously in the last two or three years.

1378. I think in your note you rather assume, do you not, that gold in India is not as valuable for maintaining exchange as gold in London?—Yes.

1379. Will you tell me why?—I would put it in this way: When an exchange crisis occurs, in other words, when the balance of trade is unfavourable to India, the Secretary of State may have to suspend his sales of bills, and may also have to meet bills on London, as in 1907–8. The stronger his sterling resources in the shape of gold standard reserve assets, Treasury balances, and paper currency reserve combined, the longer he will be able to withstand the double strain of stopping his drawings from India and meeting drawings upon London. Gold held in the paper currency reserve in London is a certain source of strength in such a crisis. It can be readily transferred to Treasury balances on the Government of India making a corresponding transfer of rupees or sovereigns from the Treasury to paper currency reserve in India. Gold held in the reserve in India can, of course, be used for the support of exchange if the Government of India lay hands upon it and ship it home (with the expense of shipment); but if they allow it to go out of the reserve in exchange for notes or rupees it does not, at any rate according to the experience of 1907–9, serve to support exchange, because it is not shipped abroad on any considerable scale, but is taken out for hoarding or internal circulation.

1380. Have you any information as to what became of the large sums that were issued in India during that crisis, which did not go to support exchange, and which were not exported; have you any information, that is, as to the proportion which really went into circulation, and the proportion which was hoarded or melted down?—I am afraid I cannot show—and this applies not only to that period but to any year—how much goes into hoards, and how much goes into circulation. We have evidence that the amount in circulation is increasing, but no one can express in anything like exact figures how much goes into hoards and how much goes into circulation.

1381. I gather, from what you said a moment ago, that you set great store by the amount of the gold resources of the Secretary of State in London?—Yes.

1382. In speaking of the gold resources in that way, do you mean actual gold or do you include securities?—It would include all—everything that he holds here, including balances.

1383. What you have said as to the importance of his holding gold does not lead you to think that it must be bullion or coin and not securities?—Not necessarily, except that the portion which is held as part of the paper currency reserve must, I think, be gold.

1384. Do you think that the holding of considerable portions of the gold standard reserve in securities is as effective for the support of exchange as if it were held in gold?—We should not so readily sell securities held as part of the gold standard reserve as we would part with gold. We should part with gold first. We can take the gold out of the paper currency reserve here very readily through the Bank of England, which would transfer a corresponding credit to the Secretary of State's balances; and then to make up the currency reserve, to keep it intact, the Government of India would similarly transfer a corresponding sum from their Treasury balances into the paper currency reserve, in that way keeping the note reserve intact.

1385. But then you are really using the paper currency reserve to buttress the gold standard reserve?—For a very similar purpose, yes, that is, for the support of exchange.

1386. Is that necessary?—I think it may be very valuable. I think possibly what we would draw upon first would be the gold standard reserve, but then the paper currency reserve would be a further reserve.

1387. On the other hand, if you have more gold in the gold standard reserve you might not need to draw upon the paper currency reserve at all?—If there were more gold or more securities in the gold standard reserve that would be so.

1388. Is it indifferent whether it is gold or securities? I understood that you contemplated using the gold in the paper currency reserve, just because you might not be ready or it might not be easy to realise immediately the securities?—Or there might be a loss on realising them.

1389. Therefore, to render you quite independent of the gold in the paper currency reserve, it would be necessary, in your opinion, to have, at any rate, a larger amount of gold than you now have in the gold standard reserve?—That is one way of putting it.

1390. I do not want to force an opinion on you if it is not yours, and one which you do not really hold; you say that is one way of putting it?—I would rather put it in this way—that the first reserve, the central reserve, for the support of exchange, is the gold standard reserve, and that the greater part of that is best held for use in this country for the support of exchange. The gold held in the paper currency reserve may serve as a subsidiary reserve to that, perhaps not to be drawn upon until we have already exhausted the other, but still it is a reserve. In the same way I would say that, supposing the Secretary of State has taken advantage in one year of a good exchange to draw balances over from India, so far as he can, without unduly depleting the balances of the Government of India, those balances held here serve the same purpose, because they relieve him up to a certain point from the necessity of selling bills on India when the exchange is bad.

1391. I was induced to put my question because I thought that some of the criticism which has been directed against what has passed arose from a certain confusion as to the uses of those two reserves and the way in which they were employed to play into one another's hands, if I may so express myself. Do you think there would be any advantage, from that point of view, in trying to keep them more independent and distinct?—I think we do keep them quite independent, and we would regard the gold standard reserve as the one immediately to be drawn upon, but I think the other serves as a useful subsidiary.

1392. In paragraph 28 of Appendix VII. in dealing with these sales you say, in subsection 4 (page 223) that one of the considerations which governs the decisions of the Secretary of State is that he should "allow a

" sufficient amount of sovereigns to flow into India " to supply the demands of the public." I think the working of the arrangement has been criticised on the ground that that has not been the result?—Of course the amount of gold that flows into India is regulated by the amount of the Secretary of State's drawings, and when, as in recent years, the surplus balances in the hands of the Government of India are very large, according to the policy I have stated we do draw those balances home, and that very largely swells the amount of the Secretary of State's drawings, and to that extent limits the amount of gold that goes into India. Nevertheless, in the last few years gold has gone into India on a very large scale indeed.

1393. Do you think there is any difficulty in India in getting gold when it is wanted?—I think not. There have been as much as 20 millions in the paper currency reserve lately; at the present time it is somewhat less, but it is, I think, something between 17 millions and 18 millions, and anyone on presenting a note or rupees can get gold in exchange.

1394. Do the people who need gold often have to pay a premium for it?—Certainly not, if they go to a currency office.

1395. In paragraph 30, Appendix VII., page 223, you say that it is a misapprehension of the India Office policy to describe it as adopted in the interests of the City of London and not in those of India. Is it not possible that a system which drew less from India might, at the same time, relieve the stringency of the Indian money markets, and might be advantageous to India even if it was disadvantageous to the London money market?—I hardly think so. Our sales of bills on India release these funds from the Indian Treasuries and supply the markets.

1396. So that in fact in your opinion there is as much capital available in India as there would be if neither transaction took place?—Yes. I think that there is as much money available under the system of selling bills freely as if we sold less freely and gold went into India.

1397. You hold, I think clearly, that the fixing of the exchange rate of the rupee at 1*s.* 4*d.* has been beneficial to India?—I do, certainly.

1398. Have you any information as to the effect which fixing the rupee rate has had on Indian trade with silver-using countries?—I have got out some figures, which I could give to the Commission if they would like to have them, showing comparisons of the trade between India and China, and also between India and Persia (which is more or less a silver-using country) before and since the fixing of the rupee. I have also got comparative figures of the imports of China and India to this country before and after.

1399. Will you circulate those figures for our information?—Certainly. (*See* Appendix IX., pp. 289–93.)

1400. Can you tell me now what the general result of them is?—I should say that the general result is that while India's trade has expanded enormously since the fixing of the rupee, the expansion as between India and China has been somewhat less than as between India and other countries, but not, I think, very materially.

1401. Would you say that the effect of fixing the rupee has been advantageous elsewhere, but slightly disadvantageous there?—It has been less advantageous, I should say. India's trade has not expanded so largely with the silver-using countries or in competition with the silver-using countries, as elsewhere.

1402. (*Lord Faber.*) I understood you to say that India can take up a loan yearly for about two millions sterling pretty readily?—Yes.

1403. Do you not think that India is increasing in wealth and in knowledge of investments every year, and that she could invest much more in rupee stocks now than two millions a year?—I think the indications are in that direction. We find that India not only takes up the rupee loan at a good price, but at a considerably better price than we can get for our 3½ per cent. loan here, whereas until quite lately the price was worse; and not only that, but India is gradually taking home some part of the rupee debt which is held here.

1404. I gathered from you, did I not, that the rupee loans are the firmest loans in the Indian market?—Yes.

1405. Now with regard to the gold standard and paper currency reserves, do you think it possible that those might be amalgamated?—No, I do not see the possibility of that.

1406. One, I understand from you, is required in India, and the other is required in London?—I think the gold standard reserve is required here, but then the paper currency reserve, you see, serves the one different purpose of a security against notes. I do not quite see how you could blend the two.

1407. You think it would be difficult, I understand, to lend out large sums on loan in India; is that because you think that gilt-edged securities would not be available as against those loans in India?—I think that is one reason, certainly.

1408. Is not the effect of fixing the value of the rupee to do away to a great extent with a large gambling element that used to enter into the Indian trade before?—I cannot say that I have any definite knowledge on that point, but I suppose it would be so.

1409. (*Sir Ernest Cable.*) I should like to ask you the question in a somewhat different form to that in which Lord Faber has put it. You said the Government of India could float loans up to about three crores per annum?—Yes.

1410. That is, at 3½ per cent.?—Yes.

1411. And you estimated that they might possibly float another crore?—Yes.

1412. Could you give us an estimate how much they could float if these loans were at 4 per cent.?—I am afraid I could not.

1413. It would be very much larger, would it not?—I suppose it would be larger, but I should say that the amount of money available and forthcoming would probably not increase in proportion to the extra charge which such a rate of interest would impose.

1414. You have said a good deal to-day about the Secretary of State having sold bills in excess of his requirements; you mean of his actual disbursements?—Yes

1415. Can you say if he has sold any such excess at anything below 1*s.* 4*d.*, and, if so, is that justifiable?—I think that it is justifiable under certain circumstances. For instance, if you will look at Table III. of Appendix VII. (page 233) in regard to the year 1909–10 you will see that the amount sold in the first half of that year was 10 millions sterling, which was sold at 1*s.* 3·951*d.* I think the justification for that was that it was just after the great crisis of 1907–8 and 1908–9, when so large a portion of the gold standard reserve had had practically to be transferred to India. In order to support exchange the Government of India had sold bills on London to the extent of 8,058,000*l.*, and when the crisis was over it was thought very necessary that that gold standard reserve money should be transferred back to this country. For that reason the Secretary of State sold bills very freely that year, although at a low rate of exchange. It did not have any permanent detrimental effect on exchange, I think, because before the end of the year exchange reached quite a high point; but I think it was important to sell freely even at an unprofitable rate in order to get the gold standard reserve funds back to this country.

1416. That was an extraordinary occasion, of course?—Yes. Then as regards other times, I think the circumstances of the time must decide the question upon each occasion.

1417. I see from Table IV. of Appendix VII. (pp. 234–6) the average annual excess of exports and imports for the last five years has been between 40 and 50 millions?—Yes.

1418. While the net import of gold bullion and sovereigns was 24 millions last year. It appears that gold is being absorbed at an increasing pace; is it not likely, therefore, that the value of gold to India may become so great as seriously to hinder the sale of the council drafts needed to meet the Secretary of State's actual expenses, quite apart from his excess drawings

about which so much has been said?—I cannot think that the imports of gold into India could be governed by anything else but the balance of trade. So long as sovereigns can be shipped to India to compete with the Secretary of State's bills, they will go there, but they will not go in except as competing with his bills.

1419. (*Chairman.*) I did not quite gather the latter part of your answer?—I mean the extent that they will go there will be determined by the extent to which they will compete in point of cheapness with the Secretary of State's bills and transfers.

1420. (*Sir Ernest Cable.*) Do you think the people would not pay slightly higher for hoarding purposes to get gold?—I think the people, as it is now, can get sovereigns if they want to hoard them. They have not to import them at any cost, but merely to take them out from the paper currency reserve against notes.

1421. What is your opinion about encouraging the use of gold in India?—I should wish everything to be done that would encourage the circulation of gold in India, but I do not see how Government can either encourage it or discourage it except by allowing gold to go in in the ordinary course of trade.

1422. Do you think that removing the tax on silver would stimulate the hoarding of silver instead of gold?—Do you mean the hoarding of rupees or bullion?

1423. I mean bullion?—I think it perhaps would, because it would make the import of bullion cheaper; but at the same time I am bound to say that the imposition of the increased duty on silver a few years ago does not seem to have materially checked the import of silver into India.

1424. The bulk of the currency notes in circulation are 10-rupee notes and 5-rupee notes; do you not think is is unlikely that those notes will be presented in large quantities, being of such small denominations and spread over a large country, in other words, do you not think there is very little likelihood of a run on the paper currency reserve?—Yes.

1425. In view of that answer, do you think it will be a good thing for some part of the note issue to be against the general assets of the Government, that is, entirely fiduciary, such, for instance, as the German Reichsbank note issue is?—I hardly see the necessity for a change in that direction. If I understand the Reichsbank system, it is rather necessitated by a difficulty Germany finds in getting gold. The experience of the last few years seems to show that India can get a great sufficiency of gold, and that the currency reserve expands in times of good trade automatically by the influx of gold. If you look at the tables of the paper currency reserve, you will see to what a great extent that has happened in the last two or three years. The total note circulation has expanded to a very large extent, and although that has been entirely due to imported gold, it has gone from just under 55 crores at the end of 1911 to practically 69 crores at the end of 1912, and that although in the same period the silver has decreased.

1426. (*Chairman.*) What table are you looking at?—Table 1 in Note I. to Appendix VIII. (pp. 248–9). You will find there how the currency reserve has expanded in the last three years. The total circulation has expanded from, say, 55 crores to 69 crores, and the amount of silver in the currency reserve has fallen in the same period by 10 crores, while it is the amount of gold that has risen so very much and expanded the total circulation. I think that shows a great expansiveness in the currency.

1427. (*Sir Ernest Cable.*) The point I wanted to bring out was this—that perhaps the paper currency reserve was over-protected, while, of course, the gold standard reserve is admittedly under-protected. I was trying to see whether we cannot sell some of the securities which are now in the paper currency reserve and apply that to the gold standard reserve, thus making both funds adequate to their responsibilities; and I was suggesting that, instead of the amalgamation scheme which Lord Faber suggested and which you say is impracticable?—I do not see how your suggestion is practicable. The intention of the gold standard reserve was that it should just grow from the profits on coinage and the proceeds of the investments made from those profits and nothing more.

1428. (*Mr. Gladstone.*) I think you agreed with the Chairman—and I suppose with all of us—that the practice followed by the Secretary of State in regard to the disposal of Council bills and other things, is not followed in any other country?—I believe that is so.

1429. Do you think that similar conditions prevail in any other country in the world?—No, I suppose not.

1430. The only similar case—I think it is in no way comparable, really—would be, I suppose, Holland with its large colonial possessions, but that would be a mere nothing compared with India and this country?—It is on a much smaller scale.

1431. In regard to the table* which you prepared showing the trade figures since the adoption of the gold standard, it seems to show that the expansion with China, a silver-using country, has not been so large as with other countries. Do you attach much importance to that? Might not that be due to special causes, for instance, to opium and the rather extraordinary political disturbances in China that have been prevalent?—I have no doubt the disturbances in China had a great deal to do with it. I do not know about the opium so much, because the value of the exports of opium must have kept up very well until almost the end of last year, although the quantity exported has been gradually reduced. I should not attach very great importance to any declining trade with China or any want of expansion in it.

1432. With regard to loans in London and the possibility of making loans in India, you would not consider, would you, that the facilities for lending in India are at all comparable to what they are in London?—No.

1433. London, of course, is the banking centre of the world, but India practically merely finances its own people and its own trade?—Yes.

1434. (*Mr. Keynes.*) In Appendix A., II., to Appendix VII. (pp. 230–1) you quote the terms which are offered for the purchase of gold in transit from Egypt; has anyone ever taken advantage of those terms?—Yes.

1435. In large quantities?—Yes, in considerable quantities.

1436. Recently?—Our offer has not been open recently. I think the last time we withdrew our offer was somewhere about 1910, and it has not since been renewed. Before that happened there were considerable purchases of gold in transit from Egypt.

1437. The document I am quoting from is dated August 1910, and it is stated that it is in force "until further notice." It has been withdrawn, has it?—Our offer was withdrawn in August 1910, and it has not since been reopened.

1438. That was in the same month in which it was offered. Is it your impression that it was withdrawn almost immediately?—I think it was. The note I have here is that it was renewed in March 1910, and withdrawn in August 1910.

1439. The substantial point is that there is at present no offer for purchasing gold in transit from Egypt?—No.

1440. What were the reasons for the withdrawal of this order?—I think that it has not been thought necessary further to increase the stock of gold that is held in London now. We had last year about seven millions here, and we now have about six millions in the paper currency reserve.

1441. The order was deliberately withdrawn with the object of making more gold flow to India?—It was adopted with the object of drawing gold to London without the expense of shipping it from Iadia.

1442. It was withdrawn with the object of making more gold flow to India?—You may put it that way; or not drawing more gold to London.

1443. (*Sir Shapurji Broacha.*) You overdrew to the extent of 18 to 22 millions in the years 1910, 1911, and 1912; I suppose during those years there were a good many windfalls from opium, the railways, and other quarters?—Yes. I would like to give you some figures

* *See* Appendix IX., page 289.

on that point. In the three years, 1910–1, 1911–2, and 1912–3, the net receipts from railways exceeded the Budget estimates by 6,800,000*l.*, and those from opium by 6,400,000*l.*; so that there were excess receipts above the Budget estimates in those three years of over 13 millions under those two heads.

1444. You could use that money here against any borrowing?—Yes.

1445. And against paying off what you had borrowed and what was due?—Yes.

1446. Suppose that in the course of years the revenue and expenditure adjust themselves and become evenly balanced, and yet you have to sell Council bills on trade account, how will you adjust matters then? I suppose you could take something from the silver reserve and from the other reserves, but still you could not have used that balance here?—I think I might venture to say this—supposing the conditions you mention, in which there is no surplus of revenue over expenditure, that would indicate trade conditions in which there would not be such a demand for the Secretary of State's drawings. The demand for his drawings depends upon the activity of trade, and if there were no surplus, there probably would not be such active demands.

1447. Suppose you had budgeted for an active demand and a very prosperous trade, it might turn out to be a little more perhaps than you anticipated, but not to the extent of 18 to 20 millions?—The Secretary of State would restrict his drawings to what the Government of India were able to remit.

1448. Are you not bound to supply trade to an unlimited extent at the gold point?—The Secretary of State undertakes to sell bills without limit at 1*s.* $4\frac{1}{16}$*d.* and transfers without limit at 1*s.* $4\frac{5}{32}$*d.*, and to do that he draws upon the currency reserve, that is to say, he would transfer gold from India to England under the Gold Note Act, in other words, he would earmark the gold to the currency reserve here against his drawings.

1449. On either side you do not go beyond 1*s.* $3\frac{29}{32}$*d.* either in buying or selling?—We do not sell under 1*s.* $3\frac{29}{32}$*d.*

1450. And that is the kind of cost that there would always be as between one country and another; whether it were the United States, or India, or France, that adjustment must always come?—Yes.

1451. The Secretary of State does not bind himself to maintain the exchange at the par of 1*s.* 4*d.*, does he?—He has an understood obligation to maintain exchange at 1*s.* 4*d.*

1452. But he is not under an obligation?—That is rather a difficult question to answer. I should say that at present he recognises the obligation to maintain exchange at 1*s.* 4*d.* to the best of his power.

1453. If the Secretary of State thinks his power of maintaining the par of exchange is sufficient, why is he afraid to guarantee; is he not confident of his own remedies?—I think he is.

1454. Then, where is the harm in guaranteeing?—It is rather a difficult thing to express a guarantee absolutely on that point.

1455. I suppose there are two parties to a bargain; here one is not very confident and does not guarantee, and the other wants a guarantee; why should not the first one give the guarantee?—I think that is rather a difficult question for me to answer. I would not like to commit the Secretary of State on such a matter.

1456. You must remember that in India the par of exchange has been absolutely necessary at any period in the history of her finance, and if that is not guaranteed will not India be injured?—I would say to that that I think the present system does command confidence in its stability.

1457. It almost does, but does it do it absolutely? If it could be done absolutely, why does the Secretary of State not guarantee?—I do not see how it could be done absolutely. I think that the resources for maintaining the stability of exchange are growing from year to year, as gold goes more largely into circulation and as the volume of the gold standard reserve increases. I think we should be more ready to meet a great crisis than we were in 1907–8—as time goes on, still more so.

1458. All that is right, but we want the absolute guarantee, otherwise we say, do what we ask you to do, and that is accumulate gold in a liquid form. The Secretary of State refuses to do that beyond a certain amount. If he does that, he must have confidence in his judgment, and if he has confidence in his judgment, why should not the Secretary of State guarantee the par of exchange for all time?—I think that he endeavours to do that as far as he has power. I think the view taken is that a holding of sterling securities, particularly short-dated securities, serves the same purpose as the holding of gold.

1459. Is it not his intention, of course, not expressed but implied, to economise the use of gold in India as much as possible?—I think the Secretary of State has no desire to economise the use of gold in India. Subject to his being able to draw from India what it is right to draw to meet the home charges and to avoid debt, he allows gold to go into India as freely as the balance of trade will allow it to go. Subject to the restriction I have mentioned, there is no desire on the part of the Secretary of State to discourage the free influx of gold into India.

1460. I believe that; but there is a part of the correspondence that we have before us from which it appears that sometimes the Secretary of State is very nervous about disturbing the gold market in London. The Secretary of State must know that there is an impression in India that that is his idea; and when India wants all the surplus profit in gold, there is that idea lurking in their minds?—I can only repeat that the view which has been taken here is that the surplus profits from coinage are as useful to support exchange if held in realisable gold securities as if held in gold; but as you know, he has decided now to accumulate gold here in the gold standard reserve until the amount reaches five millions. As regards his otherwise discouraging the flow of gold into India, I could only point to the figures of the last two years as showing you to how very large an extent gold has gone into India.

1461. You say India could easily take up a loan of about two millions?— That, I say, is the present standard, but, as I said in reply to another member of the Commission, I think India could meet a larger loan than that probably.

1462. Do you know that loans were issued for five crores as early as 1879?—Yes.

1463. I think there is a difference of 9 per cent. to-day between the $3\frac{1}{2}$ Per Cent. Sterling Loan and the $3\frac{1}{2}$ Per Cent. Rupee Loan?—I know there is a large difference.

1464. So I think it would be safe to say that loans could be raised in India to the extent of five crores?—I think that is very likely.

1465. (*Sir James Begbie.*) In your note you talk about the method of drawing funds from India to meet the home charges; have these home charges of recent years included special disbursements in connection with the currency?—I should not include those exactly in the home charges. There have been several remittances on account of currency, but I should rather treat those as opposed to home charges. Our usual definition of home charges is charges upon revenue, and we treat revenue charges as distinct from capital expenditure, and also currency remittances.

1466. You do not include the purchase of silver, do you; that is paid for from the balances in London, is it?—That is sometimes paid from the home balances in the first instance; last year, for instance, our purchases were made from the balances.

1467. And you do not include that as part of the home charges?—It is a matter of language whether we treat it as exactly part of the home charges or not. I should say it was outside the home charges in the usual sense of the term. Of course it has to be met, and it adds to the amount of drawings which we can budget for. The amount of silver bought swells the balances of the Government of India by the amount of notes that are issued against it, and that renders the Government of India *pro tanto* able to meet so many more millions of drawings by the Secretary of State.

1468. At any rate, those payments on account of silver, for example, do not come out of the ordinary revenues of India?—No.

1469. In former years there was considerable anxiety about laying down funds in London by means of Council bills, was there not?—Yes.

1470. In recent years there has been no such anxiety, with the exception of 1907 and 1908?—No.

1471. Would it be possible to separate the sales of bills to meet the ordinary home charges from sales connected with the currency?—I think they are separated, and that you will find them shown separately in the accounts of the Government of India.

1472. In the case of sales of bills there is only one amount shown—amount of bills sold?—I think when there is a remittance on account of currency you will find that is shown separately in the accounts; for instance, two or three years ago, when the invested portion of the reserve was increased by two crores, from 12 crores to 14 crores, there was a sum of 1,333,000*l.* remitted home; and that I think you will find shown in the accounts separately from the ordinary drawings of the Secretary of State.

1473. That is in the accounts, but it is not presented. At the time the sales are made there is nothing to indicate whether you are selling against currency or against the Treasury, is there?—No.

1474. That is a point I would like to ask you—whether it would be possible to separate the sale of Council bills drawn against the Treasury from those drawn against the currency reserve?—I do not think we could do that at the time we are doing it. We could not allocate them exactly. When we sell, say, 60 lakhs in one week, it would not be convenient to draw 40 lakhs of those on account of the Treasury, and say 20 lakhs represent part of the sales towards bringing home two crores of the currency reserve.

1475. Do you mean that it would be a disadvantage from a bookkeeping point of view?—There would be no great advantage in it; I do not think it would be very convenient to attempt to do it.

1476. (*Chairman.*) When such a transaction takes place, do you always decide how the proceeds of particular bills are going to be applied before you sell the bills?—We allocate a particular quantity of the sales at the end of the year to a particular purpose; that is to say, when we arrive at the end of the year and we have drawn more than we budgeted to draw, a part has been represented by, say, two crores remitted home for investment on account of the paper currency reserve, and we show that separately; but we could not allocate it to the sales of a particular month.

1477. (*Sir James Begbie.*) It is left until the close of the year to do that?—Until it is shown in the accounts.

1478. You say in paragraph 14 of Appendix VII., pp. 218–9, "the present system of regulating the "amount of the drawings for each year" is so and so; can it be said that the amount of the drawings in recent years has been regulated by the system you describe?—Yes.

1479. There have been very wide differences between the estimates and working results, have there not?—Quite so.

1480. You do not work to the estimates?—We keep to the estimates very largely, as you know; but if it is found later in the year that the balances of the Government of India will be so much larger than they anticipated, then they will be able to remit a large additional amount.

1481. On the question of regulating the sales of bills throughout the year, I understand you think it might be possible for the Secretary of State to restrict his drawings during the first half of the financial year to an almost insignificant amount, and to meet almost the whole of his requirements during the second half when he might sell his drafts at a higher rate than they would command in the dull season. Do you refer to the bills drawn to meet ordinary Treasury expenditure?—I am there talking of what might be taking place in a year of favourable seasons and trade. It might be possible, if those favourable conditions could be foreseen, to do so, but then it is a large assumption, and one cannot foresee; we do not know until the monsoon is established what we may be able to draw.

1482. The statistics you give us show that, except in a very unfavourable year like 1907–8, you could reasonably expect to make the greater part of the remittances at a better rate of exchange?—Yes, that is so.

1483. Do they also show that, with the same exception, you could rely on the money being obtained in London?—Do you mean that the demand would be sufficient?

1484. Yes?—I suppose it would be in a good season.

1485. In the last 10 years these statistics, I think, seem to show that, with the exception of one year?—In most years, yes; but as I have explained in this note, there is a great uncertainty about the monsoon, and it is safer not to rely upon being able to draw the whole of our drawings, or almost the whole of our amount, in the latter part of the year, when exchange may be expected to be higher. It is safer to draw some in the early months of the year, even when exchange is somewhat lower. It may be also necessary for our Treasury purposes, because we have large outgoings week by week, and very particularly large ones when the payment of the interest on the loans falls due. We hardly could work without drawing a considerable amount in the first six months of the financial year.

1486. Do you view with some anxiety the monsoon failing, as you might not be able to sell bills?—That is one consideration. The other is, as I say, that we must obtain some funds from India, even in what we may call the lean half of the year, to keep up our Treasury balances. These drawings on the Secretary of State's bills are practically our only source of revenue.

1487. At the beginning of the year your resources now are very much larger than they used to be years ago, are they not?—Not so much this year, I think. We began this year with a balance of a little over eight millions, I think.

1488. I was thinking of the general position as regards the gold standard reserve; in the case of an unfavourable year you would be in a much stronger position now than ever before, would you not?—Quite so; but we do not want to fall back upon the resources of the gold standard reserve if we can help it.

1489. You refer to instances when the Government of India find themselves in a position, towards the end of the financial year, to remit home funds far in excess of what was expected when the estimates were framed; and you state that you consider such excess funds properly applicable towards the reduction of the Secretary of State's borrowing operations for capital expenditure?—That is so.

1490. Do you think it is necessary that these excess funds should be drawn upon by the Secretary of State during the financial year in which they arise, and before the total is realised?—I should say that it was advantageous to draw them when the exchange was strong enough to enable us to do so, otherwise we might pile up unduly the amount that we have to draw in the following year. For instance, our budgeted drawings for this year are something over 21 millions, which is a larger amount than we have budgeted for before, I think; supposing we had drawn less last year, we should have to draw so much more this year, and we should be all the more in danger of not being able to get a good rate for our drawings.

1491. Do you still entertain the same anxiety as formerly regarding the ability of the market to take up the bills?—I think we cannot be without some degree of anxiety. As you say, in recent years the exchange has gone very well, and we have had no difficulty about drawing all that we wanted at a good rate, but we can never be free from apprehension. At the present time the exchange has fallen to 1*s.* $3\frac{31}{32}$*d.*, and until we are quite sure of a good monsoon, we cannot tell that we may not have a bad Autumn for our drawings, as in 1907–8. Therefore, I think we are right in drawing a

considerable amount, as much as we can, at a reasonable rate of exchange, even in the early months.

1492. Should not the disposal of your excess funds be the subject of discussion in the Viceroy's Legislative Council before they are drawn upon?—I think that can be done.

1493. So far it has not been done?—I think it has been raised in the Viceroy's Council, has it not?

1494. In paragraph 20 of Appendix VII., page 220, you refer to the events of May to September last year, when over seven millions in sovereigns were imported, for the purpose of showing that if Council Drafts were held up to secure the rate of 1s. 4$\frac{1}{2}$*d.*, the Secretary of State might miss his market. Would it be possible for the Secretary of State to obtain information in London as to whether sovereigns were available in Australia for shipment to India, and to what extent, and also the rate at which they could be laid down in India?—I think it is a very varying rate.

1495. Yes, but you could keep yourselves posted, could you not?—I do not know how far we could ascertain, or how far it can be foreseen.

1496. You cannot foresee it, but you can keep yourselves posted from day to day as to what is the gold point of exchange from Australia, can you not?—Yes, we can.

1497. Is that done?—I cannot say that that is carefully watched.

1498. The same remark applies to the shipment of gold from London. You mention a case where sovereigns might be shipped in competition with council bills at 1s. 4$\frac{3}{32}$*d.* It is a matter of the gold point is it not?—I suppose so.

1499. And the gold point is not entirely a fixed point, but varies from time to time?—Quite so.

1500. So that if you wanted to work close up to the gold point, you could do it if you wished by keeping yourselves informed of the actual gold point from time to time?—I think in practice we do keep in touch with the gold point; that is to say, we discover when gold is going from Australia or from Egypt, and at what rate we must sell in order to compete with it.

1501. In the case of those bills sold to bring home the gold standard reserve money, you did not work up to the gold point upon that occasion, did you?—Certainly not; because I think the importance of bringing home that large amount which had been transferred to India, and of getting our gold reserve back to this country, was considered to out-weigh the importance of only selling at 1s. 4*d.*, or at any other particular point.

1502. You do not think, then, that such sales interfere with the gold standard?—I do not think that they do, so long as they do not cause exchange to drop below the gold point. As I have said already, I think before the end of the year exchange had quite recovered, and was quite at par, or above par.

1503. But for the time being, while you were working under par, that was working against the gold standard policy, was it not?—I hardly think so, because we were pursuing the object of getting the gold standard reserve funds to this country where they would be useful to meet another really serious decline in exchange.

1504. In paragraph 21 of Appendix VII., page 220, you refer to instances when the demand for the Secretary of State's drafts far exceed the amount he can draw from the Indian Treasuries without reducing their balances below a safe limit, and you go on to deal with the sales of bills drawn for other purposes than for meeting the home requirements of the Government; is the principal reason to assist trade?—I think that bills sold when the Government of India cannot actually meet them from their Treasuries, must be said to be bills sold for the convenience of trade.

1505. But you would not say that it is the principal reason?—I would say that that is the only reason for going on selling when we have drawn up to the extent of the maximum that the Government of India can meet from their Treasuries; when we go beyond that, it is drawn for the convenience of trade alone, I should say.

1506. Another reason for the excess drawings is that the accumulation of sovereigns in the paper currency reserve in India causes inconvenience?—Yes, it serves the purpose of meeting that.

1507. Is that due to the fact that sovereigns do not pass into circulation in sufficient quantity to absorb arrivals?—I suppose that is so.

1508. If sovereigns went into circulation, there would be no accumulations in the reserves?—That is so; but, as I said a little while ago, I think that the accumulation of gold in the reserves in India is not regarded with apprehension in the way that it was some years ago. We are content now to allow gold to accumulate as much as it can in the course of trade, so long as we retain a sufficient amount of silver in the reserves.

1509. But you sell bills for the purpose of preventing gold going out to India if you think you have got enough there already?—We have done at times.

1510. You say the Secretary of State's telegraphic transfers afford the means which no other mode of remittance does of relieving in a very short space of time a money stringency which otherwise might become serious and even disastrous to Indian trade?—Yes.

1511. Does that not express only one side of the position?—It expresses this side, that our sales of bills or transfers do release funds from the balances of the Government of India which otherwise would be held up.

1512. If they ease the money market by releasing funds, can it not also be said that in holding up the money, Government causes a stringency?—Government holds up the money automatically in the collection of revenue.

1513. And that has an effect on the market?—Yes, it is money taken off the market, clearly.

1514. With regard to the sale of bills relieving the money stringency, money stringency may be relieved in two ways—by increasing the supply of money or by reducing the demand for it?—Yes.

1515. Is it not the latter method which operates in the case of council bills sales?—I hardly follow that.

1516. It is done through council bills?—Yes.

1517. The people who buy council bills are exporting firms and exchange banks?—Yes.

1518. They lay down money in India for the purpose of buying bills or buying produce?—Yes.

1519. In a stringent money market the holders of produce are obliged to sell; I mean, that it is the tendency of a tight money market to compel the producer to sell his goods?—Yes.

1520. The people who buy the goods are the exporting firms?—Yes.

1521. And the exchange banks buy the exporters' bills?—Yes.

1522. So that a stringent money market compels the holders of goods to sell, and so to reduce the demand for money?—Yes.

1523. Council bills come in and pay for the goods that are sold; therefore you reduce the demand for money?—I am afraid you are beyond me there.

1524. What I wanted to be at is this, that the council bills, when they have gone out to India, have an effect in time of relieving the stringency of the money market when it exists, but that is done through the fact that the people who are borrowing from the banks are obliged to sell their goods?—That is where I am afraid I cannot quite follow you.

1525. In paragraph 30 of Appendix VII., page 223, you enumerate several advantages in selling drafts to meet the convenience of trade. The first is that "it serves "to avert or relieve extreme stringency in the money "markets of India, which would be detrimental to the "commercial prosperity of the country." Is the council bill system really entitled to all the credit you give it? Is it not because the balance of indebtedness is due to India that remittances are wanted for India?—Yes, that would be so.

1526. If Government did not sell bills, specie would be remitted to pay for the balance, would it not?—Yes.

1527. So that Council bills are not really a necessity?—They are not a necessity, because the alterna-

tive would be the shipment of gold; but I suppose that the Council bills afford a more convenient mode of remittance—especially when the demand for remittance is very urgent and pressing—than the shipment of gold.

1528. The second advantage which you mention is that "it serves to check excessive accumulations of "gold in the Paper Currency Reserve in India which "might otherwise have to be lightened by expensive "methods." This trouble, of course, arises from the fact that there is no effective gold currency in India?—It arises from the fact, I think, that you must have a certain supply of silver, and some of that gold must be converted, or may have to be converted, from time to time into silver.

1529. But there would be no objection to holding gold in the reserve of the Paper Currency Department if it moved freely into circulation, would there?—No.

1530. The third advantage which you state is that "it serves sometimes to avert extreme stringency in the "London money market which would be created if "the Secretary of State, by refusing to sell drafts for "the convenience of trade, forced large quantities of "sovereigns to be taken from London for India," and so on. Is it an advantage to have the Secretary of State placed in the position you describe of either being obliged to sell bills or being left open to the charge of forcing large quantities of sovereigns to be taken from London to India?—I do not think that that charge quite applies.

1531. The transactions which bring about such a situation are not transactions of the Secretary of State, are they?—I am not sure that I quite follow your argument there.

1532. You are here talking about the Secretary of State, by refusing to sell drafts for the convenience of trade, forcing large quantities of sovereigns to be taken to India; and I am asking whether it is any advantage to put the Secretary of State in a position when that can be said about him?—It may be under certain conditions an advantage to India that he should be able to avert an extreme stringency in the London money market which would react upon India.

1533. But does that not put the Secretary of State in the position that if he does not sell, people will say he is forcing gold into India?—I think it is part of the system. He cannot help the situation, in fact.

1534. (*Lord Kilbracken.*) The fact is, it puts a certain responsibility upon him, does it not?—It does.

1535. Which he exercises, as he does, for the good of India?—Yes.

1536. It is part of the system, and he is willing to be responsible?—Yes.

1537. (*Sir James Begbie.*) You do not support by any examples the doctrine that free sales of Council drafts for the purpose of averting serious disturbance of the London money market may at times be fully justified, and indeed urgently required in the interests of India?—As a frequent borrower on the London market?

1538. Is it not a doctrine which may be interpreted differently by different people, or even by the same person at different times?—I think that is a question to which I cannot help saying yes.

1539. You talk about averting a serious disturbance of the London money market; when you come to exercise your discretion in that way, how is the stringency in the money market measured; is it a question of the height of the Bank of England rate?—That would be a good criterion of it, I suppose.

1540. In the last three or four years you have had very large sales of Council bills—unusually large sales—and at times the bank rate has not been high?—That is so.

1541. How has the stringency effect come into operation then?—I think we may in such cases treat our large sales without reference to stringency in the London money market. They have not been made with any view to averting stringency, but they have been made for the revenue purposes of the Secretary of State, or his Ways and Means purposes simply.

1542. Do you think that Council bills are always an advantage to the London market?—I should say that they were an advantage at times, not to the London money market in particular, but to persons engaged in trade with India.

1543. We are dealing here with the London money market; do you think it is an advantage to the London money market that bills should be sold?—I think so, in so far as they may prevent a large efflux of gold from the London money market, which might bring about a very high bank rate.

1544. Is it not possible that the sale of Council bills may at times operate detrimentally to the London market?—I daresay.

1545. Take the case of the purchase of silver for coinage last year. Is it not the case that the need for silver coinage arose because the stock of rupees in the currency reserve in India was below the point you thought it ought to be at?—Yes.

1546. There was too much gold and too little silver, really?—I would not say there was too much gold, but the stock of silver was falling unduly low.

1547. Then the decision was come to to buy silver for coinage, and that purchase was made, I understand, by means of money provided from Council bill sales?—Yes.

1548. These Council bills were sold to lay down money for this purpose, and were paid for in India from the paper currency reserve?—It practically comes to that. They were paid for out of the balances of the Government of India, and those balances were strengthened by the notes which they were able to issue against the new silver.

1549. The silver, when coined, replaced the money in the currency reserve which had been issued in the payment of the Council bills?—Yes.

1550. That silver was an addition to the total currency, was it not?—Yes.

1551. But at the time the decision was arrived at to coin fresh rupees, what was needed was a substitution of rupees for gold in the reserve, was it not?—We might do it either way. We might have taken gold from the currency reserve in London to pay for the silver, in which case, of course, there would have been no expansion of the note circulation; or we might do as we did, buy the silver immediately from balances, which led to the circulation being increased by the amount of new silver.

1552. As a matter of fact you did sell Council bills?—Yes.

1553. If a portion of the gold held in the reserve had been used to pay for the silver, there would not have been an addition to the total currency, would there?—No.

1554. By the use of sales of bills to pay for the silver, the London money market had to find the money to pay for that?—In a way, yes.

1555. The amount was over seven millions, was it not?—Yes.

1556. Would it not have been a greater advantage to the London money market to have received the gold to pay for the silver purchases?—Yes.

1557. So that it was no advantage in that case to the London money market to sell the bills?—It was no advantage to the London money market, but I think there was no occasion to consider the London money market in this case.

1558. During the time you were buying silver last year, were the India Office balances lent in the market also being reduced?—Yes, they were reduced by the amount that we paid for the silver.

1559. During the same period there was about 7½ millions of gold added to the currency reserve in India?—Gradually, yes; that was in addition to the seven millions of silver.

1560. So in that case it cannot be said that the sales of bills operated in the direction of averting disturbance in the London money market?—I do not know; is not "disturbance" rather too strong?

1561. I do not wish to use too strong language. As a matter of fact, do you not think all these different operations caused some pressure in the London money

market?—I hardly think so. It was spread over a long period.

1562. That is so far as the London money market is concerned. Is it not possible that the Indian public may have some ground for complaint that the currency was being overweighted by that operation, it being an addition to the currency when it was not necessary?—It is a question, I suppose, whether it was necessary.

1563. Is it not possible that the Indian public might have cause of complaint?—That might be so. I think the difference between buying that silver by using up gold and not immediately expanding the note circulation, and buying it from Treasury balances and so expanding the note circulation, might have only a temporary effect; that is to say, in the one case we would take the seven millions straight out from the gold of the reserve here in London, and in the other case, by doing as we did, our increased sales of Council bills to pay for this silver must reduce the amount of gold that would otherwise go into India, and, therefore, *pro tanto*, obviate a further expansion of the note circulation. Taken in connection with the influx of gold, the immediate effect was to increase the currency reserve very greatly, but I do not think the ultimate effect would be to increase it so much.

1564. That accounts for the very large accumulation of cash in the Government of India's treasuries?—Yes, that is so; in other words, if we had not sold bills in payment of all this silver we should have sold part of those bills in drawing home the Treasury balances.

1565. When you sell Council bills to avert stringency in the London money market, the great advantage to the London money market is when you sell against Treasury balances in India, is it not?—I do not think so, but perhaps I do not quite follow you.

1566. In the case of silver, for example, you draw bills to buy silver, and you spend that money at once?—Yes.

1567. In the case of bills drawn against the Treasury, you may keep your money for a long time?—Yes.

1568. So it is only when you are drawing bills against the Treasury that you give any advantage to the London money market?—That is so, I suppose.

1569. In recent years there have been very high balances caused by these big sales, have there not?—Yes, more directly by these big sales, and those big sales have been caused by the very large Indian surpluses.

1570. Of course the money is provided for by the Indian taxpayer?—By the Indian taxpayer, yes, but not by extra taxation.

1571. You have referred, in paragraph 32 of Appendix VII., page 224, to the transfer, by means of Council bill sales, of about two millions from the gold standard reserve in India to London in about 1910 and 1911; can you explain why that amount was drawn to London?—The way that arises is that besides drawing back the proceeds of the sales of bills upon India, we drew to this side some portion of the six crores that have been held in silver.

1572. Can you explain why that was done?—I could not explain at this moment why that was done, but I will look it up, if you like.*

1573. I should like to know, if it is convenient to you?—The amount held in India was reduced by that process from six crores to 290 lakhs.

1574. The transfer was a departure, was it not, from the intention, as explained when the Indian branch of the reserve was formed?—It was for the time being, yes.

1575. It also meant an addition to the currency in India at that time?—That is so.

1576. Although there was no addition necessary then?—Yes.

1577. You have explained that last year there was a remittance of 1,200,000*l.* for profits of coinage from India to England; can you explain why the profits were coined into rupees?—Part of the profits were coined into rupees to restore that six crore reserve which had been held in India before those 310 lakhs were remitted home. It was the desire of the Government of India and the Secretary of State that that six crore reserve should be restored; so as soon as we began coining rupees last year the profits were transferred to that silver portion until it was brought up to six crores. After that, the amount was converted into gold, and, as I say, it was this balance of 1,200,000*l.* which was remitted home.

1578. That did not exhaust the whole of the profits, did it?—Those two items together I think account for the whole of the profits. The 310 lakhs, which were added to the 290 lakhs already held in India, brought up the amount again to six crores; and then there was the 1,200,000*l.* which was transferred home.

1579. You have explained why the three crores were coined into rupees, but what about the balance; why was that coined into rupees?—Because the normal procedure is to hold all the profits of coinage, with the exception of those six crores that are held in silver, in gold or gold securities.

1580. Why should it be coined into rupees?—The rupees were coined, but then against those rupees gold was set aside and remitted home.

1581. We have not got the point why you coin the profit into rupees. Why is it necessary to coin the profit into rupees?—What else would you do with it? The seven millions worth of silver produces 15¾ crores of rupees; of that, 105 lakhs or thereabouts represent the equivalent of 15 rupees to the 1*l.* on the seven millions of silver coined. The remainder is strictly profits, but it is by custom converted into rupees, and there is no other way in which you can hold it very well.

1582. We have had the suggestion made that if you draw the seven millions from India, that means that you have to replenish in India 10½ crores; and what you ought to do, is it not, is to buy enough silver to coin 10½ crores, and then the difference between the cost of silver that you buy and the seven millions is the profit, and is in sterling already?—I think it may be said that the actual amount required was the 15¾ crores, only that is produced partly in the shape of a direct addition to the note circulation and partly in the shape of profits. Of those profits, part goes to replacing the silver portion, or the Indian portion of the Gold Standard Reserve of six crores, and the balance comes indirectly into the Paper Currency Reserve—it is coined rupees, and against it gold is set aside and the value remitted to this country, where it is held in gold.

1583. When you coin the profits into rupees, you give the profits to the Gold Standard Reserve?—Yes, we credit the Gold Standard Reserve with the value of those rupees.

1584. You put the rupees into the reserve and take the gold out?—Yes.

1585. Then you get no profits upon the coinage of those rupees, because it is a substitution of rupees for gold?—I think not. I think we increase the Gold Standard Reserve by the value of those extra rupees. We pass the additional rupees into the balances, but the Government of India remit home the equivalent amount, and that is placed to the Gold Standard Reserve here.

1586. (*Chairman.*) In gold?—Yes, in gold.

1587. (*Sir James Begbie.*) You refer in one or two places, for instance, in paragraphs 31 and 32 of Appendix VII. (pp. 223–4), to the elasticity in the paper currency system; that elasticity is not automatic, is it?—I think it is automatic as far as the gold proportion is concerned, because when trade is good gold flows automatically into India, and goes into the currency reserve and increases the note issue, so to that extent the currency is elastic. The only part of the note issue of the currency that can be called absolutely inelastic is the silver portion.

1588. You say that people can get gold for notes in India; can you say how many places there are in India where those exchanges can be made?—I could not say off-hand at this moment how many places there are, but I can give you that figure if you like.

* It was done in order to relieve the balances of the Government of India from being unduly depleted by meeting the Secretary of State's drawings.—F. W. N.

1589. (*Mr. Gillan.*) What you say in Appendix VII., paras. 21 and 22 (pp. 220–1), about the practice followed in the sale of Council bills might be read, I think, as showing that the system is rather an artificial one?—Yes.

1590. At any rate that it is founded to a very great extent on the interests of trade; I think that was shown by some questions put to you by the Chairman?—Yes.

1591. In your evidence given this morning I think you spoke about the regulation of the amount of gold going into India?—Perhaps I should not say "regulation." There is no deliberate intention to regulate it, but of course the effect of the Secretary of State's sales is, not intentionally but necessarily, to decrease the amount of gold that goes into India.

1592. May I put it to you in this way, that if any of his drawings are not in pursuance of Government requirements, then to that extent he is keeping gold out of India undoubtedly?—He may be.

1593. He is, is he not?—He may be doing one or two things—he may be keeping gold out of India, and he may at the same time be putting gold into the currency reserve here, as, for instance, when he earmarks gold.

1594. Let us consider the Treasury balances first. If he is drawing in excess of his own requirements he is to that extent keeping gold out of India?—Yes.

1595. On the other hand, if his drawings are in pursuance of his own interests or of Government interests, then, even if he is keeping gold out of India, his action is not open to criticism?—May I remark upon the phrase "his requirements"?

1596. I will come to that later, if you will allow me; that is the position, as I am putting it to you, is it not?—Yes.

1597. Granted that his drawings are in pursuance of his requirements, then you have the two currents which the critics and the Government would desire to have, namely, (1) gold going out to India, and (2) gold coming here; that is so, is it not?—There are two different sets of critics.

1598. I am assuming that the drawings of the Secretary of State are in pursuance of his requirements; either he desires to draw bills or to bring gold home, and to that extent it would not be an interference with the flow of gold to India which is open to any criticism. I am asking your opinion; do you agree?—I see what you mean—yes.

1599. Could you say that the Secretary of State, as a matter of fact, brings home a single rupee that he does not intend to use?—No.

1600. I think Mr. Abrahams has shown in his memorandum that there may be periods during which the Secretary of State has held very high balances, but that, going up to the end of the present budget year, the budget closes with a minimum balance?—The Indian balance, do you mean?

1601. And the home balance?—Yes.

1602. So, assuming that estimate of the current budget to be correct, all the money that has been brought home will, by the end of this year, actually have been used?—Yes. We budgeted for balances of about 12½ millions in India and a little over four millions here, and those can both be considered minimum balances.

1603. Will you say that the drawings have, as a matter of fact, been justified in every case by Government interests quite apart from trade interests?—I would not say always quite apart from trade interests, as I think the point at which the Secretary of State sells in the interests of trade only and without regard to Treasury considerations at all only comes in when he sells as under the Gold Note Act against currency and when the Government of India have not——

1604. Excuse me, I am at the moment on Treasury balances?—Very well; so far as we draw on Treasury balances I do not think we do it in the interests of trade only; we do it in our own interests.

1605. That is the point I am putting to you, that, during the last three or four years the drawings in every case have been justified by Government interests apart from trade interests, although I am not saying that trade interests were not concerned or that they did not benefit?—I should say that they have been justified.

1606. You make a distinction apparently in the case of the currency drawings?—Yes.

1607. But there, also, is it not the case that the Secretary of State draws money home because it is his policy to hold a certain amount of the currency gold at home?—Yes.

1608. But for that policy he would not draw through currency, would he?—I think he would. I think in 1898, when this plan of drawing through currency was first started, the object was at that time to convenience trade by selling bills and transfers at the maximum price, at a time when the Government of India were not able to meet them from their treasuries.

1609. That is to say, it was a part of the policy to hold some of the currency gold at home, was it not?—I think not. I think that was a superadded idea of a later time. If you remember, the intention of the Gold Note Act of 1898 was that the Secretary of State should hold gold for a time until he should choose to send it back to India or pass it into his balances against a corresponding transfer from Treasury to currency reserve in India.

1610. As a matter of fact, in the last few years has the amount of currency gold held at home been in any case excessive?—No, I think not.

1611. If it had been done in the interests of trade, would there not have been the consequence that the Secretary of State would have held more gold in the currency at home than he wished to hold for his own purposes?—Yes, it might be so.

1612. That is what I am putting to you. Do you consider that the currency gold held at home has been excessive, as a matter of fact, from the point of view of the Secretary of State's own requirements?—Certainly not.

1613. I wish to ask you now about the effect of Council bills on the money market of India. I think you said in answer to the Chairman that the drawing of Council bills does not reduce the amount of currency available in India?—Yes.

1614. But you also stated, later on, that you were not at the time considering the question of loans being given by the Government in India?—That is so.

1615. The two things are very much interconnected, are they not?—Yes, they are.

1616. I am not sure that in the answer you gave the Chairman you were not assuming that nothing would take the place of the Council bills. If there were not a system of Council bills, then the funds in payment of the balance of trade would have to be taken into the country in some other way?—Yes.

1617. At the same time the amount of the balance held by the Government of India would be so much the larger?—Yes,

1618. And that larger balance they might lend out in the Indian market?—Yes.

1619. So that the two systems do not come to the same thing?—No.

1620. You would actually have more money available in India if you did not draw on the Government of India by means of your Council bills?—Certainly there would be more money in India, but unless the Government of India departed from their present practice and lent out that money, there would not be more in the market, would there?

1621. That is precisely why I put it to you that, putting aside that question of lending, if you combined the two things, you would have more money?—Yes, if the Government of India lent also, there would be more money.

1622. Considering this exchange business that is done by the Government of India, the holding of a big balance at home in England, the lending of their balance, the holding of a very large balance in India, and the remittance business that they do in the internal trade of the country; you would agree, would you not, that the Government at present do, as a matter of fact, run a very big banking business?—Yes, I suppose we may put it so.

1623. And there would be reasons for considering any scheme that got that banking business on commercial lines, that is to say, apart from the Government part of it?—Yes.

1624. (*Sir Shapurji Broacha.*) When the rupee coins are depleted in the currency, and the Secretary of State in consultation with the Government of India decides that they require more rupees in the currency department, they make up their minds to coin a certain number of crores of rupees, 10, or whatever it may be?—Yes.

1625. Suppose they make up their minds to coin 4½ crores of rupees to meet the necessities of the currency department, then they would buy two millions of silver to make that 4½ crores of coins, which would consist of 3 crores for the currency department and 1½ crores for the gold reserve?—Yes, approximately.

1626. So 3 crores go into the currency for circulation and 1½ crores are sent in the shape of gold here to act as the Gold Standard Reserve?—Yes.

1627. Therefore, when the Government of India coined this year 15¾ crores or 16 crores, that was required for the purposes of currency, according to your calculations?—Yes.

1628. You bought seven millions of silver and you put 10½ crores into the currency department, and 5½ crores you have got back in gold here?—No, not 5½; 310 lakhs went into the silver branch in India in the shape of rupees held in the Gold Standard Reserve, not in the Paper Currency Reserve.

1629. The profit of that was brought into the Gold Standard Reserve?—Yes; the whole profits go into the Gold Standard Reserve.

1630. So of course you do not coin more rupees than you require?—No.

1631. Of which for book-keeping two-thirds goes on account of currency and one-third is transferred in gold to London?—Yes, approximately. The exact fraction of the profit depends upon the price of silver, of course.

1632. But the Gold Standard Reserve gets its share of gold?—Yes.

1633. And whatever the requirements are for the currency you coin so many rupees?—That is the intention.

1634. But you cannot divide it up except according to your requirements?—That is so.

1635. (*Chairman.*) I want to call your attention to the second section of paragraph 11, Appendix VII. (page 218). Mr. Keynes was asking you about the paper which you put in which is headed "Conditions on which "the Secretary of State for India in Council is "willing until further notice to purchase sovereigns "in transit from Australia or Egypt." You refer to that, I think, in this paragraph 11, where you say that it shows "the conditions under which sovereigns sometimes are purchased"; I understand from your evidence that that is scarcely quite correct?—It has been true in the past. What I said was that the offer to purchase in transit had been withdrawn in the year 1910 and had not been renewed since then.

1636. Were these conditions only in force for a few months in that particular year?—The offer was originally made in December 1905; then it was withdrawn for a time and renewed. It was withdrawn in June 1906; it was renewed in January 1907 and again withdrawn in March 1907; and it was once more renewed and again withdrawn in 1910. Since then it has not been renewed.

1637. In your paper do you give the conditions in the form in which they were last issued?—In the form as revised in August 1910 in which they would be issued if they were issued now.

1638. We want you to turn now to the note on the Paper Currency Reserve (*see* Appendix VIII.). Would you tell me what was the reason for the transfer to the Government of the monopoly of note issuing in 1861?—As I have stated in my note, the Presidency banks had been issuing notes for over 20 years before the introduction of the Paper Currency Act of 1861, but those notes had not been legal tender; the total issues had been limited to five crores of rupees, but the actual circulation appears to have been considerably less and it was confined almost entirely to the three Presidency towns, I think paper money was almost unknown in the greater part of India. I have got here a copy of the speech of the Finance Member of the Government of India in introducing the Bill for the establishment of the Paper Currency Reserve. That sets forth in great detail the advantages of a paper money generally, and also the advantages of managing that by Government.

1639. Will you give me the name of the Finance Minister?—That was Mr. James Wilson, who went out as Finance Member of the Governor-General's Council in the autumn of 1859. He had previously discussed the matter with Sir Charles Wood, the Secretary of State, and he went out and set himself at once to the task of introducing an effective paper currency.

1640. (*Sir Robert Chalmers.*) He had been Financial Secretary to the Treasury, I believe?—Yes. If you will allow me, I will hand in a copy of Mr. Wilson's speech (*see* Appendix X., page 294).

1641. (*Mr. Keynes.*) Is it not the case that Mr. James Wilson died almost immediately?—Yes.

1642. And that the actual Bill brought in was considerably different from what he proposed?—Yes.

1643. So that he is only responsible for the original drafting of the Government measure?—Yes.

1644. And not in any way for the actual terms of the Act?—That is so. Perhaps I might say in brief terms what were the arguments that Mr. Wilson adduced in favour of a Government paper currency. He said that in order that a paper currency should fulfil all the purposes of coin it was necessary that it should be legal tender everywhere except at the place of its issue; and the securities for payment of the notes must be absolute and undoubted. If a bank were charged with the issue of notes, it would have to be required not only to deposit securities which would ensure the ultimate payment of the notes, but also a proper reserve of bullion to secure their prompt and immediate payment. He did not think it would be practicable for any bank such as could be established in India to comply with these requirements, consistently with its duty towards the great body of its creditors. The system was only practicable in the case of the Bank of England, owing to its very large capital and the absolute separation between its banking and issuing departments. The Government of India, he said, proposed to take the issue department of the Bank of England as their model. Not only would such an issue department possess a security greater perhaps than that of any bank issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of the Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr. Wilson's Bill did not become law without considerable modifications, the principal being that the lowest denomination of note was fixed at 10 rupees instead of five, and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two-thirds of the note circulation as proposed by Mr. Wilson.

1645. (*Chairman.*) What is the present proportion of the fiduciary issue?—The present proportion of the fiduciary issue is about 20 per cent. of the whole of the note circulation.

1646. The actual amount of the fiduciary issue has been steadily increased from time to time, has it not?—Yes, it was originally limited to 4 crores, then it was raised to 6 crores in 1872, to 8 crores in 1890, to 10 crores in 1896, to 12 crores in 1905, and to 14 crores in 1911. The 12 crores were to include 2 crores of securities of the United Kingdom or securities issued by the Secretary of State for India in Council, and the 14 crores, 4 crores of such securities. That is the position at the present time.

1647. There has been, as you say, a steady increase in the total amount of fiduciary issue; has the proportion grown or does it remain about the same?—The proportion is decidedly low; it is lower than it has

been, I should say, at any time; it is about 20 per cent.

1648. It has been as high, I think, as 40 per cent.?—In 1874 it was as much as 61 per cent., but the whole amount of the note issue was much smaller then; now it is larger.

1649. What is the table to which you are referring at the moment?—It is Table I. of Note I. to Appendix VIII. (pp. 248–9).

1650. (*Sir Robert Chalmers.*) Could you tell us the class of securities in which Mr. Wilson proposed the fiduciary issue should be invested?—I think his proposal was that they should be securities of the Government of India, as they were, as a matter of fact, at first.

1651. (*Chairman.*) I understand that the non-fiduciary portion of the reserve was held in silver up till 1893?—Not entirely; there was a period during which a portion of it was held in gold.

1652. Before 1893?—Yes. The Paper Currency Act of 1861 provided for the issue, under notification of the Government of India, of notes against gold coin or gold bullion. A notification of that kind was issued under the Act on the 23rd November 1864, directing that Government currency notes should until further notice be issued at currency offices and agencies of issue, in exchange for sovereigns and half-sovereigns calculated at the rate of 10 and 5 rupees—10 rupees for the sovereign—to an extent not exceeding one-fourth of the total amount of issues represented by coin or by coin and bullion in each circle. At the same time another notification was issued to the effect that until further notice sovereigns and half-sovereigns would be received at Indian treasuries in payment of sums due to the Government as the equivalent of 10 and 5 rupees respectively, and that sovereigns and half-sovereigns would also be paid at the same rates to any persons willing to receive them in payment of claims against Government. If you will look at Table I. of Note I. to Appendix VIII. (pp. 248–9), you will see that as a consequence of the first of these notifications gold was held in the Currency Reserve on a small scale in 1864–5 and a few subsequent years, but apparently ceased to come in after 1870–1, the fall in the price of silver rendering the notification a dead letter. I have here copies of these notifications.

1653. In the early stages the whole of the reserve was held in India, was it not?—Yes.

1654. But in 1898 a portion of it was held in London?—Yes.

1655. Originally as a temporary measure?—Yes.

1656. What was the reason for that?—The reason was the excessive demand for the Secretary of State's bills which the Government of India were not able to meet from their Treasury balances; at any rate, not able to meet conveniently from their Treasury balances. The object of this Act (Act II. of 1898) was to enable them to meet the drawings for the convenience of trade from the Paper Currency Reserve, the Secretary of State setting aside gold to the Paper Currency Reserve in London to the same extent that the Government of India took out money from the Paper Currency Reserve in India to meet his drawings. That was the beginning of the holding of gold in London.

1657. Should I be right in saying that to that extent the Paper Currency Reserve was used to supplement the deficiencies of the Gold Standard Reserve?—Hardly, I think, but to supplement the deficiencies of the Indian treasuries.

1658. The inability of the Indian Treasury to meet the demands of trade?—Yes.

1659. Was the step required by the necessities of the Secretary of State, or was it wholly caused by his desire to meet the demands of trade?—The arrangement was made in communication with the Government of India. I think that the Government of India were quite as urgent in desiring this legislation as the Secretary of State was.

1660. At that time gold was not legal tender, I think?—No, it was not legal tender until the following year—1899.

1661. Practically the effect was the same as an increase of the fiduciary issue of notes?—It was similar to that; so was the notification of 1893 under which gold notes could be issued against gold in India.

1662. (*Sir Robert Chalmers.*) Was the difference more than this, that gold was not in 1898 actually legal tender, but was merely received?—That is so. It was received at the value of 15 rupees to the £, but it was not legal tender until 1899.

1663. That had been the case since about 1893?—Yes.

1664. (*Chairman.*) Then this measure of 1898, which was at first adopted as a temporary provision, was extended by the Act of 1900, and subsequently made permanent by the Act of 1902?—Yes.

1665. On what grounds?—Here I might perhaps read to you an extract from the speech of the Finance Member of the Governor-General's Council in introducing the Bill in 1900.

1666. Will you give us the name of the Finance Member again?—That was Sir Edward Law. He said: "The silver from which the rupees are to be "coined naturally has to be bought, and under the "provisions of the present Act the Secretary of State "has been obliged to use his Treasury balances—the "resources outside the Paper Currency Reserve—for "the purchase of that silver, and this has caused "considerable difficulty. Being unable to touch the "funds in the Paper Currency Reserve we were "obliged to find fresh money for our purchases, and "the result was that we were locking up money in "two different places at one and the same time for "one and the same purpose. We were holding gold "which, owing to the requirements of the Currency "Reserve, we could not touch, and we were holding "silver to be coined into rupees to be put, when "coined, into the Currency Reserve in place of that "gold. The proposals now made will enable us to "consider silver bought for coinage as forming part "of the Currency Reserve and will enable the Secretary of State to use the gold in the Currency "Reserve for the purchase of silver. At the exact "moment when the gold in the Currency Reserve is "converted into silver the silver bullion, which is in "equally safe keeping, takes its place as part of the "Currency Reserve. . . . This arrangement will "be a great convenience and save us the necessity of "finding money for the purchase of silver." The provision in the Act of 1900 is: "The silver bullion so "purchased shall, until rupees are added to the "Currency Reserve under clause C of this subsection, "take the place of the gold so expended as security "for the currency notes issued."

1667. The next step in the history of the reserve, I think, is the Act of 1905?—Yes. What I was reading from was the speech on the introduction of the Act of 1900, which was not the one that made the system permanent, but the one which extended it for a time and also provided for the purchase of silver from the gold held in the reserve. Then there was an Act of 1902 which made the previous Act permanent.

1668. Was it brought forward for the same reason?—For the same reason. Also at that time the advantage had come to be realised of holding gold in this country as a support of exchange in a time of crisis. That was adduced then as one of the arguments for making this system permanent.

1669. The primary object of the Gold Standard Reserve is to support exchange?—Yes.

1670. To that extent I was right, was I not, in saying that this use of the Currency Reserve is to supplement a deficiency in the Gold Standard Reserve?—Yes, to supplement it.

1671. If the Gold Standard Reserve were greater, would there be any good, from the point of view of exchange, in using the Paper Currency Reserve in this way?—No. If one could regard the Gold Standard Reserve as absolutely sufficient—we hope it may be some day—then the need for holding part of the Paper Currency Reserve in London would to some extent disappear; but that convenience would always remain of having gold here which we could convert at once into silver without keeping money lying idle for any time.

1672. The reasons which were given by Sir Edward Law?—Yes.

1673. The Act of 1905, I think, enlarged the list of securities that could be held on account of the Paper Currency Reserve; was that not so?—Yes.

1674. Will you tell me briefly what new class of securities it introduced?—Sterling securities, that is to say, either British Government securities or the sterling securities of the Secretary of State in Council—sterling loans.

1675. What was the reason for doing that?—It was thought that in a currency crisis in India, when there was a run upon the currency, probably rupee securities would be much more affected than sterling securities. That was the reason set forth in the Financial Statement of the Government, and I have got a copy of a quotation on that point if you would like to have it (*see* paragraph 7 of letter from the Government of India dated 18th August 1904, Note II. to Appendix VIII., page 255).

1676. I need not trouble you to put it in if you would give me the reason?—That, in fact, is what the reason was.

1677. Then in 1911 a further Act was passed, which limited the amount of British Government securities that could be held; was that not so?—Yes. It rather raised the limit. The limit under the Act of 1905 to the amount of sterling securities had been 2 crores out of a total of 12 crores, and this Act raised the limit to 4 crores out of a total of 14 crores.

1678. What principle governed those several limits, by what rules or by what instructions were they fixed?—What governed the relationship of the whole of the fiduciary portion to the whole of the note issue, I think, was a general idea of a proportion—two-fifths of the active circulation, or something of that kind. As regards the limit to the sterling portion of the invested part of the reserve, I think the idea was that while the Government regarded it as desirable to hold a portion of the fiduciary reserve in sterling securities, they had no intention of going in that direction beyond a moderate limit, and there was no intention of buying sterling securities in displacement of any part of the rupee holding. They did not want to transfer the whole invested portion, or anything like the whole, from rupee securities into sterling securities.

1679. How is it settled how much gold shall be held in India and in London respectively on account of the paper currency reserve?—I think that that has only been settled from time to time, without any established proportion between the two. As I was saying this morning, I think the tendency lately has been rather to look with much more favour upon a large holding of gold than formerly, and that now the position is this—that if we hold a sufficient supply of silver according to the formula adopted a few years ago, that is to say, if we have 24 crores in all, 18 crores being in the currency reserve and six crores in the gold standard reserve, at the beginning of the busy season, and if we have not less than 17½ crores in the two combined at the end of the busy season, of which at least 15 crores would be in the currency reserve—subject to that, and to having 14 crores, as at present it is, invested, the amount of notes issued against gold may increase automatically to any extent that gold flows into the country in the course of trade.

1680. The gold which is held in London in the paper currency reserve is, I understand, ear-marked at the Bank of England; is that so?—Yes.

1681. What is the precise process by which that is effected?—We write a letter to the Bank of England asking them to set aside a certain sum amounting to so many hundred thousands of sovereigns to a deposit account of the Secretary of State called the gold deposit account of the paper currency reserve. That is against the Secretary of State's cash balances, of course. Then we at once inform the Government of India that that has been done, so that simultaneously they will issue notes against that sum so set aside.

1682. Does the bank make any charge for that?—Not for the actual process of earmarking, but they make a small charge of $\frac{1}{32}d.$ per cent. per year for holding the gold. That is all they charge.

1683. Have they always made a charge?—Yes. I think at first when the amount held was smaller they charged $\frac{1}{16}d.$, then when the amount was increased to about five millions and it was arranged that the usual holding should be as large an amount as five millions, they reduced their charge to $\frac{1}{32}d.$, which has been in force ever since.

1684. What do you regard that charge as being payment for? Is it for the cost of storage room, or what?—Storage room, and, I suppose, safe custody.

1685. I think I have seen it suggested that the presence of this earmarked gold in London is really taken into account by the City and by people who are responsible for the London gold reserves generally, and that the earmarked gold is regarded as a possible source of relief in a crisis here; what do you say to that?—I think that is rather an alarmist impression. I suppose the suggestion is that, if the Bank of England reserves of gold were very short, the Secretary of State might conceivably agree to release gold held by him at the Bank of England against an equivalent credit to his cash balances. The result would be equivalent to a remittance of Treasury balances from India to England against a corresponding transfer of currency reserve from England to India. The Government of India would have to transfer from their Treasury balances to their currency reserve a sum exactly equivalent to the sum transferred in the converse direction here. I do not think there is any reason to fear that any such transfer would be made between the Treasury and the currency reserve unless it could be justified in the eyes of the Indian public as being in the interests of India.

1686. Then reference has been made to a reserve of ingots?—The ingot reserve was a reserve that was held for a certain time in India in the shape of silver ingots which had gone through certain stages of preparation for coinage but were not coined. This reserve was held in a shape in which it was convertible into rupees at about five days' notice, and it was held as part of the currency reserve; consequently notes were issued against it, at the rate of 15 rupees to each 1*l.* worth of silver. I confess I do not quite appreciate the value of this form of reserve, and it was superseded in 1906 by a reserve of coined silver, namely, 600 lakhs of rupees, being held outside the paper currency reserve, that is, in the gold standard reserve.

1687. Then there is no ingot reserve to-day?—There is no ingot reserve now.

1688. In paragraph 33 of Appendix VIII. you quote from the financial despatch to the Secretary of State, which says: "From first to last our only "practical difficulty has been the timely provision of "rupees, and notwithstanding various improvements "of method that difficulty still remains, and as recent "experience has again shown, it constitutes a real "danger" (page 245)?—That expressed the Government of India's view of their difficulties.

1689. How did that arise?—I think it was in this way: The Government allowed themselves to get very dangerously short of rupees in 1900. As you know, the policy was, after the closing of the Indian mints, to refrain from any new coinage until the silver reserves had run down quite low; and that was persisted in until 1900. Then the supplies were found to be seriously short, and coinage had to be undertaken in a hurry and to a large extent. At several other times between 1900 and 1906, when that passage was written, although the stock of rupees in the currency reserve was not excessively low, the drain on it was sufficiently severe to create nervousness and apprehension in commercial circles as to the sufficiency of the stocks. Perhaps I might say that the difficulties of the Government of India were as much on account of the apprehension of their reserves falling too low as upon finding those reserves practically and actually too low.

1690. Has there ever been any actual difficulty in supplying the demand?—I think in 1900 there actually was.

1691. But not since that time?—Not since that time. Sometimes the drain of rupees out of the currency reserve has been so rapid that it has led

to apprehensions that there might not be enough rupees.

1692. The demands on the currency reserve are very uncertain, are they not?—They are very unequal, that is to say, in a season of very active trade there is a very large outflow of rupees during the active months of the year, and a partial return during the dull season; on the other hand, in a season of bad trade like 1908–9 there is nothing but a return of rupees from circulation the whole time, so that you get a very great and excessive accumulation, as I have set forth in my note, of rupees.

1693. Owing to the large restriction in the currency brought about by natural causes?—Yes.

1694. It has been suggested that the opening of a central bank for India and the transfer to it of the management of the paper currency would be an improvement; have you anything to say as to that suggestion?—It is a very large question, and I feel great diffidence in expressing an opinion upon it. It seems to me that some of the arguments that were urged by Mr. Wilson in favour of a currency managed by the State perhaps still hold good, such as the view that you would not get in India a bank with a very large capital capable of earning a profit and large enough to be entrusted with this very large and growing currency. The amount of currency note circulation in India has now got up to 69 crores, which represents 46 millions in sterling; if this goes on it will very soon be as large as the whole note issue in this country. It is a very large circulation indeed.

1695. Supposing it were possible to create a central bank of sufficient strength to bear that responsibility, would you see any advantage in its being transferred to such a bank?—I think that rather raises the question whether the present system is defective, and what are the defects in the present system. Perhaps the Commission will hear more evidence on that point.

1696. I was putting my question to you rather as an administrator. Do you think that the Secretary of State would be glad to be relieved of a portion of the responsibility which now falls upon him in these matters?—I am not sure; I hardly think that he would. I have seen a central bank advocated rather as a means of restricting the flow of gold into India, and that is a point of view that I cannot understand exactly, because though I can understand that extended banking facilities would economise the use of gold in India perhaps, I do not see how that could check the influx of gold into India which was required by the balance of trade.

1697. From what you have said it is clear that the use of notes has been very much extended in India in recent years?—Yes, very much.

1698. The extension has been almost in geometric ratio?—It has.

1699. That is all to the good?—I suppose that is all to the good. I think it has been very largely due to the universalisation of some of the denominations of notes, making them encashable outside their own circle.

1700. Are they now encashable over the whole of India?—They are with one or two exceptions. There are one or two notes that have not been universalised yet

1701. Now I want to ask you some questions with reference to something you said this morning. You have just told me that you consider it an advantage to have a large note circulation?—Yes, I do.

1702. This morning you said in reply to Sir Shapurji that the Government of India and the Secretary of State had no desire to discourage the free influx of gold into India?—That is so.

1703. In answer to Sir Ernest Cable you went a little further, and I think you said that you would wish everything to be done to encourage gold to go into circulation?—Into circulation, yes.

1704. Why? You have a paper currency and you have a silver token currency, and you say it is very desirable that the paper currency should be increased as much as possible; then why do you want to increase the gold currency?—Because in India I go on the idea that so far as gold might displace rupees in circulation, the exchange would be on a sounder basis.

1705. That would only be the case if the gold which was in circulation was available for the support of exchange in a time of crisis?—That is so.

1706. Does your experience lead you to think that it is so available? — Certainly the experience of 1907–8 and 1908–9 does not show that it was used to any large extent for that purpose, but one cannot help hoping that if it became more widely in circulation it would serve that purpose.

1707. A great deal of gold was issued in that time probably through the Treasuries?—A good deal was issued, but the Government of India found themselves obliged to restrict the issues, as the drain upon their gold reduced it to such a very small quantity that they were not able at one time to meet all the demands upon it.

1708. I think we have had it in evidence that over 4¼ millions was actually issued?—That is so.

1709. And that not more than a quarter of a million was exported?—I think that is so.

1710. Would it not appear from those circumstances that the gold which is issued in a time of crisis does not support exchange?—Yes. That was rather the experience of 1907–8.

1711. There is always a certain tendency to hoard the precious metals in India, is there not?—Yes, there seems to be.

1712. Does the history of that crisis and of the dealings in gold at that time, support the idea that in a moment of crisis the tendency to hoard is even greater than usual?—I do not know; I am not sure that the evidence shows that.

1713. At any rate, it does show that as far as it can be traced very little advantage was derived at that time for the support of exchange from the gold in circulation?—Yes.

1714. And that the gold which had gone into circulation had either remained in circulation in India or was hoarded?—Yes.

1715. But was not used to support exchange?—That is so.

1716. Do you still think that it is of real importance to increase the gold circulation in the hope of supporting exchange?—I cannot help thinking that the more gold supersedes silver in circulation, the smaller is the necessity for coining silver and the whole circulation gets more nearly on a gold basis. Then any coining of silver, one must remember, depletes our resources of gold which we hold for the support of exchange, that is to say, if we buy silver to be coined into rupees by directly taking out gold from the currency reserve here, that directly weakens our gold resources; on the other hand, if we pay for the silver by the sale of Council Bills, that has, I think, the same effect, only in a more gradual way, because the larger our drawings to pay for that silver, the less gold will go into India for some time.

1717. Of course at a moment of crisis like that, the currency would be restricted, naturally?—I do not think that the currency was so very much restricted at that period, because silver came back very largely from circulation into the reserve.

1718. The amount of silver in circulation would be less at a moment of crisis than it had been in the last prosperous year before?—Yes, the amount in circulation would be.

1719. Therefore, the Secretary of State would not be buying silver at that moment?—No.

1720. Did not the answer you gave me just now depend upon the assumption that the Secretary of State would be buying silver at that time?—I did not mean that he would be buying in a crisis like that. I meant that the greater the extent to which the sovereign supersedes the rupee in circulation the smaller will be the general need for the coinage of rupees, and the less will be the permanent perennial need for coining more rupees.

1721. On the other hand, the more the sovereign goes into circulation and displaces the rupee, the less

gold you will have immediately available in your paper currency reserve?—Yes, that would be so.

1722. Would not any advantage that you get from the greater amount of gold in circulation be counterbalanced by the disadvantage of having less gold immediately available in your reserve?—It looks as if it would be so.

1723. Is not gold in your paper currency reserve of greater use to you, at any rate, for the maintenance of exchange in a time of crisis than gold in circulation?—I must admit that that seems to be so.

1724. Thinking the matter over, do you still hold that it is to the interests of the Indian Government to induce people to put gold into circulation?—I would not like to say it was to their interest to induce people to put gold into circulation exactly.

1725. I quite understand; you would desire to give them whatever they want?—To give them every facility, as, in fact the Government does now.

1726. Do you think on reflection that it is better for the Government of India and for Indian interests if they take gold out, or if they take silver?—I must say I am not quite convinced that a large quantity of sovereigns in circulation would not be a good thing if the balance of trade is sufficient to maintain a large stock in the currency reserve as well.

1727. (*Lord Faber.*) Pursuing the argument of the Chairman at this moment as to what I would call the different kinds of money, I suppose you will agree with me in thinking that there are practically four kinds of money in use now—(1) silver, (2) gold, (3) notes, (4) best of all, cheques?—Yes.

1728. Do you agree with me in thinking that the worst of these is silver, because it is so very bulky, and that if you have to pay everything in silver it is not convenient for trade, and therefore gold is better than silver because it is much less bulky?—That is so.

1729. Notes, again, are better than gold, because notes are handier and it saves the wear and tear of the gold, and you can cover the notes?—Yes.

1730. Then again there is the cheque, which is better than everything else, and is the system we have at home practically?—Yes.

1731. So that really one of the arguments in favour of gold as against silver is that it is much more easily handled?—Yes.

1732. I suppose the very fact of earmarking gold and advertising it as being ear-marked places it outside the market at home, and the market knows it?—Certainly.

1733. (*Sir Robert Chalmers.*) What profits do you make on an average from the note issue of the Government of India?—Do you mean from the invested reserve?

1734. What profit is there on the issue taken as a whole, net?—The receipts consist almost entirely of the interest on the investments. The invested amount is 14 crores, that is to say, $9\frac{2}{3}$ millions sterling. I cannot say exactly at what prices all those securities have been bought, so anything we say would have to be a rough estimate. In the year 1911–2 the receipts amounted to 306,802*l.*, the charges to 155,536*l.*, and the net profit to 151,266*l.*

1735. Anyhow a substantial profit is made from the note issue which is in the hands of the Government?—Yes.

1736. Were the issue handed over by the Government to a bank, with that presumably would go the profit in whole or in part?—Yes.

1737. Do you see any particular reason for handing over that profit?—Personally I must say I do not.

1738. Now about the securities; in the main they are rupee securities in India, are they not?—Yes.

1739. Supposing, which Heaven forbid, there were a run and people wanted actual legal tender coin in lieu of their notes, do you conceive that it would be possible to realise to any large extent in India the Indian rupee securities held against the note issue?—I am afraid any very large realisation on the Indian market would depress the price very seriously.

1740. Conceivably you could imagine the case where you might not be able to realise them at all?—That is an argument so far as it goes in favour of holding the larger part in sterling securities

1741. That question leads to the general question of realisability in the great hour of need, and that question leads to this—that you want as regards India or any other country to have your securities in the greatest international market?—Yes.

1742. You take that view, do you?—That is the conclusion, I think.

1743. Historically, you may not be very familiar with this, or you may, but I suppose Mr. Wilson put the fiduciary issue into Indian Government securities on the analogy, with which he was very familiar, of the Bank Acts of 1844 and 1845?—Yes; and also, I think, the argument weighed with him very much that the purchase of Indian securities from time to time would improve the credit of the Government of India in the Indian markets.

1744. Would you go so far as to take the view that the issue of notes means a profit, and that there is in theory no more reason why a bank should issue notes to profit than it should issue token coins at a profit?—I am hardly prepared for that question.

1745. (*Sir Ernest Cable.*) Did I understand you to say in answer to Lord Faber that you considered gold more suitable for the needs of the people of India?—No. Lord Faber's point was that gold is more portable and less bulky than silver; and that one must admit. If you ask whether silver is on other grounds more suitable for India, of course there is this to be said—that the Indian people want a small denomination of coin. One great difficulty in the way of the sovereign going widely into circulation is that it is so large a coin and of such high value. They want a smaller unit.

1746. I was only trying to bring out the point that the great bulk of the transactions in India are very small?—That is so.

1747. Even down to, we will say, 4*d.*, which would maintain a family for one day?—Yes.

1748. Therefore silver is more suitable for the internal needs?—It is more suitable in that way, and so would be notes of small denomination, particularly the 5-rupee note.

1749. So there is no particular need to encourage the use of gold in India for the benefit of the people?—From that point of view, no.

1750. Of course the institution of a gold mint in India would be bound to encourage the use of gold if it was successful?—Yes. I do not, however, think that a gold mint would greatly increase the supply of sovereigns in India.

1751. (*Mr. Keynes.*) Recent legislation, by making notes up to 100 rupees universal legal tender, has almost entirely abolished the necessity for the old circle system of issue, has it not?—I should hardly think that.

1752. What purposes does it now serve?—I do not see exactly how you could dispense with the circles of issue. You have not got absolute universalisation of all the notes, as a matter of fact.

1753. Now that they are universal legal tender up to 100 rupees, it would make very little difference to universalise them completely?—Yes.

1754. What purpose does the circle system still serve?—Is it not an advantage? I should have thought it was an advantage to have a comparatively large number of different offices from which a note could be issued.

1755. Certainly; I was not meaning to limit the number of offices; I was suggesting that you should abolish the division of the offices into different circles—that you should make of India one circle, but that you should retain the existing number of offices; would there be any objection to that?—I am hardly prepared to offer an opinion on that.

1756. No objection occurs to you at the moment, does it?—No.

1757. The demand for currency in India is very seasonal, is it not?—Yes.

1758. In other countries a seasonal demand is met by increased cheque currency or note currency against temporary security, is it not?—Yes.

1759. For instance, in Germany or in France bills are discounted by the State banks and notes issued against them, are they not?—I understand that is so.

1760. But in India nothing of the sort exists, so that there is complete inelasticity?—Yes.

1761. Would you be of opinion that this was partly responsible for the high bank rate at certain times of the year?—I am not sure that that is so, because, as I have said before, the note issue does really expand with great elasticity in times of active trade as a consequence of the influx of gold.

1762. When more notes are issued, the Government only changes one form of currency into another, does it not?—Yes.

1763. But it does not increase the total volume of currency?—Surely the volume of currency is increased by imports when the sovereigns come in, or are imported from abroad.

1764. No doubt the import of sovereigns increases the currency, but the changing them into notes does not increase it, and the issue of notes against sovereigns does not increase the volume of currency?—I should have thought it would, myself.

1765. I do not think we are in disagreement; I am merely saying that the volume of currency cannot be increased except in so far as people bring fresh currency into the country?—That is so.

1766. Whereas in France or in Germany there is another way of increasing currency, namely, by issuing more notes against temporary security?—Yes.

1767. I am asking whether the absence of that provision in the Indian system may be partly responsible for the high rate of discount at the busy season?—It may be so.

1768. If notes could temporarily be issued in the busy season against some temporary security, the volume of currency would be increased and seasonal stringency might be diminished?—That is so.

1769. (*Sir Robert Chalmers.*) Subject always to the use of cheques?—Yes.

1770. (*Mr. Keynes.*) You are assuming the possibility of the increase of cheques is not very great in India?—Yes.

1771. (*Chairman.*) As to the part which cheques play in the Indian currency, are they an important factor?—They are not a very important factor, I fancy, but other people can much better tell you about that than I can.

1772. (*Mr. Keynes.*) Outside the Presidency towns, I should be right in saying, should I not, that there is no means at present of increasing the currency except by importing it from abroad?—Yes; by the natural influx of gold, or by the artificial import of silver.

1773. Would you be in favour of some change in legislation by which the note issue could be used to supply the necessary elasticity after the French or German model?—As I say, it is not a question on which I feel able to offer any very definite opinion. I think you will always have great fluctuations in the Indian bank rate—an 8 per cent. rate in the winter and a 3 per cent. rate in the summer seems to be a regular seasonal thing.

1774. At present?—Yes, at present; formerly the rates used to be very much higher.

1775. I meant by "at present" under the existing system?—Under a similar system formerly the rates were very much higher. Under the present system of the free influx of gold, and the free expansion of the note circulation, the fluctuations in the bank rates are very much smaller than they used to be.

1776. I might get, perhaps, at the same point in another way. The fundamental principle which underlies the paper currency reserve was adopted at the time when the Bank of England note system was orthodox, and where there was little or no experience of any other system. Is not that so?—Yes.

1777. While the Indian system has since lapsed, if I may say so, into something rather different, and though some modifications have been deliberately introduced from time to time, the general principle underlying the note issue has never, in the past 60 years, been fundamentally reconsidered?—No, I suppose not.

1778. There is now a great deal of experience drawn from various European countries of note issues regulated on quite different principles?—Yes.

1779. If the principle of the note issue in India were rather radically altered in the light of European experience, might not that much needed element of elasticity be acquired in some degree?—I suppose that might be so.

1780. These possibilities have not been considered, but, *primâ facie*, there are advantages which might conceivably be attained by some such modification?—I think that is so.

1781. You would acquiesce in that view?—Yes.

1782. (*Sir Robert Chalmers.*) You cannot use your credit more than once; that, perhaps, is a general proposition you might agree to?—Yes.

1783. If you use it in the form of notes, you cannot use it in the form of cheques?—I suppose that is so.

1784. (*Sir Shapurji Broacha.*) At present the note circulation is 68 or 69 crores?—Yes.

1785. The reserve against that is composed of 14 crores of securities, 16 crores of rupees and about 38 crores of sovereigns?—That is so.

1786. At present there is no restriction to give gold against either notes or rupees, is there?—There is no restriction.

1787. Of the 38 crores of gold, you have 9 crores in England?—About that.

1788. And they are ear-marked?—Yes.

1789. If they want those 9 crores back in India, is there any reason in it?—I see no reason why India should want those 9 crores. India has quite an abundant stock in the currency reserve on which they can draw freely.

1790. There can be no reason for asking for the 9 crores, unless there is a want of confidence in the Government of England?—Yes.

1791. They could not make any use of it so long as it is ear-marked, whether it is in India or here?—No, it would serve no other purpose than as security for those notes.

1792. I suppose the whole debt of India, including railways, is about 500 millions?—I dare say you are right.

1793. Of which only 30 millions is held in India?—More, I think. The total Government debt including railway debt is about 274½ millions, of which nearly 88 millions are held in India.

1794. India is a debtor country. Do you know that Russia has 60 millions in gold here and in France because of her foreign debt?—I dare say.

1795. And so has Japan lodged her gold here because of her foreign debt?—Yes.

1796. I suppose England holds all except about 80 millions of the 500 millions of the debt of India, and Indians hold not more than 30 millions, so I think it is right that a good portion of the gold should remain in England. The only reason that could be advanced for asking to keep the gold in India would be a sort of want of confidence—nothing else?—Yes.

1797. I see in to-day's "Times"* that you have put some gold standard reserve money into securities during the last month?—Yes, there has been a change of investments.

1798. I thought we had an assurance from the Secretary of State that he was going to put 5 millions into liquid gold?—He is doing so.

1799. So he has not commenced going back?—Not at all. Any change in the investments that has been made in the last month or two has been merely an exchange from one investment into another, and no part of that stock of gold which is in process of accumulation at the Bank of England has been taken out. It is the intention of the Secretary of State to go on increasing that from the profits of coinage and from the interest on securities held, until it reaches 5 millions.

1800. Can you tell me any possible advantage India would derive by forcing gold upon them so long as a rupee is 16 annas?—I do not see any object in forcing gold upon the people.

* Thursday, June 12th, 1913.

1801. Then why did the staff of the Secretary of State and the staff of the Government of India say we should like to see the gold better circulated?—I think there is a difference between those two points of view—liking it to be better circulated, and pressing it upon the people. I think there is no desire to press it upon the people.

1802. I think at present it is not within the bounds of possibility, but suppose a gold currency were made in India, that would mean that you were to give gold against all demands?—Yes, it would.

1803. I think you know that there is a tremendous quantity of rupees in India which have been coined in the present century?—Yes.

1804. Do you think if people were to tender them against gold, the gold would suffice?—No.

1805. People say, "Let us have a gold currency," but a gold currency means that the Gresham Law would come into being; that is to say, that the cheaper metal would drive away the dearer metal, because you know gold is better, and it is better liked every year in India?—Yes.

1806. But we have not a store of gold at present to make a gold currency?—That is so, we have not.

1807. (*Sir James Begbie.*) You gave us particulars of the coinage of silver last year, and in section 1 of paragraph 29 of Appendix VIII. (page 243) you say there was a coinage to the extent of about 1,575 lakhs of rupees carried out last year; could you give us the quantity and average cost of the silver, and how the rupees were coined or disposed of and found their way into the reserves?—Yes, I could. If you would like a statement laid before the Commission I will put it in.*

1808. (*Mr. Gillan.*) In paragraph 6 of Appendix VIII. (page 240) you say the invested portion of the reserve is now "14 crores of rupees, of which 10 "crores are represented by securities of the Govern- "ment of India, and 4 crores by securities of the "British Government." In dealing with the proportion of sterling and rupee securities the Government of India in their letter of 18th August 1904, I think, gave certain reasons for increasing the sterling investment which appear in Note II. to Appendix VIII. (pp. 255–74)?—Yes.

1809. They said that in the event of a serious financial or political crisis occurring in India the rupee securities would inevitably be depreciated and difficult to sell, "while it is probable that sterling securities "would not be so seriously affected owing to the "greater capacity and solidity of the London market." They also said "the position of sterling securities "would carry the further advantages that the proceeds "would be receivable in London, *i.e.*, in the market "in which if more rupees were required we should "have to buy silver, and in which also if gold were "required for strengthening exchange it would make "itself felt." Do you agree with those reasons?—I think there is great force in them.

1810. Do you think this proportion, of 10 and 4, which at present obtains is a good proportion, or would you be inclined to increase the sterling investments?—I would say the sterling portion was large enough at present. After all, it is very much a question for the Indian authorities, I think, to consider, but my own personal opinion would be that a further increase might be made to the rupee portion.

1811. The total investment is 14 crores; how is that determined—how is the limit fixed?—The initiative is generally taken by the Government of India. They write home to the Secretary of State after consultation with the Presidency banks, and they compare the ratio borne by the invested portion of the reserve to the average total circulation gross and net of the three previous years, or the two previous years, with the ratio borne by the one to the other at the date when the last increase of the invested portion of the reserve was made. And then they usually suggest an increase to bring the invested amount up to something like the same proportion of the whole that it bore when last the change was made.

1812. In paragraph 46 of Appendix VIII., page 247, you say, "a further increase of the invested portion of the reserve will no doubt soon become practicable"; going on the principle that has been followed in the proportion of investments to the total circulation, it would be possible, would it not, to make an investment now — immediately? — Yes, I should say so.

1813. A considerable investment?—The present proportion of the investment is very low indeed; it is only about 20 per cent.

1814. That would be immediately practicable?—I should say so.

1815. Would you prefer that that should be invested in some permanent form such as is the case at present, or should it be maintained in order to be available for lending out in India?—I should think the preferable course would be, that it should be invested either in rupee securities or else in sterling short-dated securities in this country. I think that the Secretary of State would not be likely again to adopt the practice that was adopted some time ago of investing in Consols or permanent securities, but he would prefer short-dated securities, if the securities were sterling ones. I think there is great deal to be said in favour of adding to the rupee investments.

1816. From what you said to me previously, I understand that you do not think it is desirable to increase further at present the sterling investments?—No. My private opinion rather would be in favour of adding to the rupee investment.

1817. I think Sir Robert Chalmers put it to you that there was a certain danger in adding to the rupee securities, and you agreed with him?—Yes, but one cannot overlook a consideration which I put in this way: Having regard to the large number of notes always held by the Government, I think the danger of a run on the reserve of such dimensions as to exhaust first the metallic reserve, then the sterling securities, and then to trench on the rupee securities is so remote that the danger of adding to the rupee-invested portion is not very serious.

1818. What is the particular advantage in your view of adding to the rupee security instead of to the sterling security?—My impression is that it would be more popular with the Indian people and that it would rather improve the market for rupee securities.

1819. The Chairman asked you what happened to the gold that was taken out of the country in 1907–8. There are figures in the Comptroller-General's Report for 1910–1, which include the receipts in sovereigns of Post Offices and Railways (page 13); I do not know if you have got that Report?—No, I have not that by me here.

1820. Those figures show that up to 1908–9, there was a matter of a couple of millions received in the Post Offices and railways jointly, and that it amounted to about 300,000*l.* in 1909–10. What conclusion would you draw from that, taking these receipts as an indication of the amount of gold that was in circulation and in use as currency?—I suppose the indication rather would be that gold went into hoards.

1821. You said in answer to the Chairman that small notes up to 100 rupees are now encashable all over India?—That is so.

1822. That means really that they are encashable at eight centres?—Yes.

1823. The legal obligation to give coin for notes obtaining only in those eight places?—Yes.

1824. There is a liability, is there not, for the notes to go to a discount at any other place?—I was not aware of that.

1825. Since there is not a legal obligation to pay cash for them in any other place, that is what one would expect, is it not?—I suppose it is; but I have not thought of that.

1826. Would it not be a favourable thing for the note circulation if the facilities for encashment were increased, and if there were a large number of centres where cash and notes were freely exchanged?—Yes, I suppose it would.

1827. Then there is the point which Mr. Keynes put to you about the elasticity of the note system;

* This statement was not eventually asked for.

the Indian system at present is entirely wanting in elasticity, is it not?—Perhaps it is going rather far to say it is entirely wanting in elasticity if it expands so readily with the influx of gold; but I see Mr. Keynes' point.

1828. You agreed, I think, with the Chairman that the increase which has taken place in the note circulation of recent years has been a good thing?—Certainly.

1829. Considering these two points that I have put to you about the places of encashment and the introduction of some method of elasticity, does it not appear to you that a further increase in the gold circulation would probably be more easily obtained by means of a bank than by means of a Government department?—It is rather a question of the method to be adopted than of the particular agency employed to do it.

1830. I was asking you your opinion; which do you consider to be the most efficient agent for the purpose in view?—Personally, I do not quite see, assuming that the policy were decided upon, that the one agency would be more favourable than the other.

1831. Sir Robert Chalmers asked you a question about the profits that were made out of the paper currency and about handing over those profits to a bank or banks; the question of revising the agreements with the presidency banks is at present under consideration, is it not?—I believe it is.

1832. It is the case, is it not, that we leave with the Presidency banks at present balances very much larger than we are compelled under agreement to leave with them?—Yes.

1833. And that those balances are left free of interest?—Yes.

1834. So that the whole question is one of remuneration?—Yes.

1835. In connection with that this matter of the profits on the notes might be considered at the same time?—Yes.

1836. It is a part of the same general system or arrangement?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

SIXTH DAY.

Friday, June 13, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. WALTER BADOCK, C.S.I., called and examined.

1837. (*Chairman.*) You are Accountant-General at the India Office, I understand?—That is so.

1838. You have handed in to the Commission two memoranda, one under the head of The Placing of Cash Balances on Loan or Deposit, and the other regarding the authority required for payments made at the India Office and the system of control exercised in respect of them. I propose to include those in our published evidence?—That will be my wish (*see* Appendices XI. and XII.).

1839. Turning to the memorandum on The Placing of Cash Balances, Appendix XI., on pages 315–6 you give the list of borrowers approved by the Secretary of State in Council on 31st March 1913; will you tell me how that list was made up?—The list of applications of approved borrowers is not made up by solicitation on the part of this office. We never ask anyone to join it, but applications can be made by any firm of suitable standing and resources. These applications are ordinarily made to the broker; the broker would make such inquiries as he thought suitable and add any opinion of his own, and would forward the application to me. I should then transmit it to the Chairman of the Finance Committee, who would also make any inquiries that he thought desirable and bring his own knowledge to bear on the matter. Then he would make a recommendation, which would be sent to me with any recommendation that he might think it suitable to attach. I should then prepare a minute which would go to the Under Secretary of State, and would be laid before the Finance Committee and before the Secretary of State.

1840. When you say Under Secretary, I presume you mean the Permanent Under Secretary?—Yes. It is the usual routine of the office that papers for Committees of Council are sent to the Permanent Under Secretary first. In recent cases an application has gone to the Under Secretary first, then to the Finance Committee, and then after approval by them has been approved by the Secretary of State in Council.

1841. On whom do you consider that the actual responsibility, the practical responsibility, for the selection or rejection of a name rests, under those circumstances?—I do not like to discriminate between the actual and practical, but, of course, very great responsibility rests upon the expert advisers to the Secretary of State. The decision is the decision of the Secretary of State in Council.

1842. Is the submission of a name to the Secretary of State in Council more than a form, if it has been approved by the other authorities you have mentioned?—I should not like to say that was the case, because it is open to any member of the Council who has any personal knowledge to make any comment he chooses to make, and to take any action he may think fit in support of his opinion.

1843. It would, I presume, naturally be unlikely that criticism would be heard at that stage?—I should say it was unlikely. I might add, perhaps, that there are two, and there have been for many years two, City members on the Council, so that it is not solely the decision of one City member in as far as it is a decision at all.

1844. Is the Chairman of the Finance Committee always a City member?—As far as my recollection goes it has been so; I think I can certainly say for 30 years it has been so.

1845. He is appointed by the Secretary of State, is he?—The present chairman has been. I am not quite sure what the practice as regards that matter has been. I happen to know how Sir Felix Schuster was appointed, but that perhaps I think you had better ask of the Permanent Under Secretary.

1846. Do you happen to know for how long the appointment is made?—No, I do not.

1847. (*Sir Robert Chalmers.*) Are you speaking in answer to the Chairman about the appointment of this commercial member as Chairman of the Finance Committee?—I understood the Chairman to put that question to me.

1848. You would be able to say what is the term of appointment to be a member of the Council?—Yes; that under the present Act is seven years.

1849. (*Chairman.*) Are the members of the Finance Committee necessarily members of the Council?—Yes; it is a committee of the Council. I might explain perhaps that in recent years, since we have had large investments to make of the Gold Standard Reserve and the Paper Currency Reserve, and financial transactions on a larger scale than hitherto, it has been necessary sometimes to delegate the powers of the Secretary of State to an individual, because the stocks are offered and they have to be accepted or rejected at once, and transactions must be considered on their merits and decided immediately, being financial matters. For that purpose I know the Finance Committee and the Secretary of State delegate their powers to the Chairman or to the Chairman and one or two others; and the Chairman, I know, has recently been nominated for that purpose; but what took place before Sir Felix Schuster's time I cannot say.

1850. I presume that any transactions of that kind authorised by him would be reported at the earliest meeting?—Undoubtedly.

1851. When was the present practice instituted, under which applications come before the Finance Committee and the Secretary of State as well as before the Chairman?—As you know, this system was inherited from the East India Company. It was treated for many years in rather a confidential way, as, naturally, in regard to the information which a City member might have about firms and so on, it would not be convenient always to put all he knew on paper. He was especially qualified to deal with these matters, and until about 1912 the Chairman used provisionally to admit firms to the approved list, and loans were made to them and that was approved by the Finance Committee. Every detail of every loan has always been put before the Finance Committee weekly, and the appearance of a new name would at once be noticed and, if it was approved by the Committee, sanction to the admission of the name was implied of course. In 1906 the full borrowing list was submitted to the Finance Committee quarterly, and new admissions were recorded or any changes in it from the previous quarter, and it was formally approved. Not until December 1912 was the approval of the Secretary of State in Council given to the full borrowing list. The present procedure, as I have said, is to put every transaction before the Finance Committee.

1852. Have you any special reasons for the change?—Yes.

1853. Was it due to the magnitude of the then operations?—It was done really because it was desired to indicate that the decisions taken and the approval given were not those of a committee or an individual but those of the Secretary of State in Council; it was desired to make that more clear.

1854. I understand from paragraph 3 of Appendix XI. that loans are only made in sums of 50,000*l.* or in multiples of 50,000*l.*?—Yes. That was inherited from the East India Company. I have looked back into their affairs, and I find that they practically never lent less than 50,000*l.* and multiples of 50,000*l.*; there were one or two cases where they lent 25,000*l.*, but I cannot trace any loan of a smaller amount. We find it very desirable to maintain that limit, because, in the first place, it ensures that firms who can produce the requisite amount of security are firms of a certain standing who would not be likely to be in difficulties in any ordinary movement of the money market. Of course in our loans the very first consideration, more important than any question of interest, is the question of the availability of the principal and the security. In the second place, the 50,000*l.* minimum is held because it keeps away the applications of small firms who might be willing to pay a high rate of interest and to whom it would not be quite safe to lend.

1855. I think you do suggest in your memorandum that occasionally a little money remains for a short time unlent?—Yes.

1856. Of course it does not amount to 50,000*l.*?—That is so. We consider the points that I put before you, namely, the security and the availability of the money, to be more important than investing the balance right up to the hilt. If we took small sums to one firm, and lent, say 25,000*l.*, so as to get nearer to our minimum balance, we could not very well use the argument that we only lend in blocks of 50,000*l.* when we receive applications from firms that it would be undesirable, perhaps, to put on the list.

1857. The only question that occurs to me is whether, when you have an approved borrower of 50,000*l.*, you might in such a case place an additional 25,000*l.* with him instead of saying that you would place another 50,000*l.*?—It might be so, but then we could not say, as we do say now, that we only lend in blocks of 50,000*l.* and multiples of 50,000*l.*

1858. You explain in paragraph 4 of Appendix XI. how you arrive at the period for which you can afford to lend money; is the period of six weeks the absolute maximum period for any loan?—There is no maximum laid down by the Secretary of State in Council. It has simply been a practice which has been adhered to throughout, except in the special time when we had very large balances, when the excess over anything that could possibly be required in the immediate future was put on deposit at the banks; otherwise the six weeks' maximum has been maintained throughout. It has this advantage: first, that of course we can, in emergency, call the whole balance in very rapidly; and secondly, if we hear rumours about any firm we are able to call the money in much more rapidly than we otherwise could, and possibly save ourselves from loss.

1859. It would naturally happen, I suppose, that in fact sums remain for a very much longer period with a single borrower, being renewed and renewed?—Undoubtedly; but only when he will pay the highest rate of the day. We unhesitatingly recall if the holder of a loan will not pay the rate which others will pay.

1860. You give us a list in paragraph 5 of Appendix XI. of the present securities which the broker is authorised to accept for those loans, and I see in the correspondence on page 313 of the Appendix that that list has recently been extended?—That is so.

1861. Is that list based on any general principle?—Yes, practically it rests on the provisions of the Government of India Act, 1858. That Act laid down the full financial procedure of the Secretary of State. I have a copy here, and perhaps you might like to look at it while I am explaining its effect. If you will look at section 45 you will see that the Act raises in the books of the Governor and Company of the Bank of England an account called the Stock Account of the Secretary of State in Council of India. The history of that is that at the time this Act was passed these loaning operations were going on as now, and the East India Company was the holder of very similar securities to what we are holding now, namely, Consols and Government Annuities. It was directed by this Act that all such securities should be transferred to the Stock Account at the Bank of England, and all such securities were so transferred. The Act provides, in section 48, that bearer securities shall be held at the Bank of England; and another section

provides that all cash payments and receipts shall be at the Bank of England. These sections 43 to 48 practically determine the financial procedure of the Secretary of State.

1862. But they do not determine the class of stocks, do they?—Only in this way: The Bank of England cannot transfer any stocks into the stock account of the Secretary of State unless those stocks are transferable at the bank. That practically excludes those which are inscribed at other banks. That has been throughout the restriction which has been placed upon the loans of the Secretary of State, that we take the securities which are transferable, or can be transferred, into the stock account of the Secretary of State in Council of India at the Bank of England. That limits us a great deal with regard to registered securities. The terms of section 48, which deals with bearer securities, are much wider and enable us to include colonial bonds; it would also enable us to include other bearer securities if it was considered desirable. I might point out, too, that part of our system, as I have explained in paragraph 10 of Appendix XI. (page 311), is that, as a protection, I instruct the cashier of the Bank of England not to pay the broker until either the bearer securities have been deposited or the securities have been transferred to the stock account of the Secretary of State at the Bank of England. The cashiers, who act under a power of attorney from the Secretary of State, can only know this if it takes place at the bank, or they can only know it immediately, they can only have direct knowledge of it then. As a matter of fact, I know the cashier, before he pays it, sends for the transfer book from the bank, and sees for himself that another department has made the transfer.

1863. I am not competent to interpret this statute, but looking at the sections to which you refer me, I see that section 45 has a marginal note "Stock account to be opened at the bank," and section 46 has this marginal note, which I think gives a clearer summary of its provisions, "Stocks standing in the name of the company transferred"?—That has since been repealed, because it was done.

1864. I do not quite see that that section contains any restriction of the kind that you have mentioned?—There is no restriction, but, on the other hand, there is no authority. All our procedure is laid down by the Act as to where we shall keep all our accounts, and it has been considered that that is probably the intention of Parliament. This Act was passed long ago, before the present market conditions existed, but it has always been held that we should adhere to that procedure, and we have adhered to it from the date of the Act.

1865. You act, as you think, in the spirit of this Act?—In the spirit of it, yes.

1866. Though not absolutely bound by its terms?—That is so. There is no prohibition and there are no statutory powers in this respect, but there is for everything else that we do, and therefore it all hangs together.

1867. Looking at the list of authorised securities given in paragraph 5 of Appendix XI., at first sight it is not a very wide one, and the selection seems to me a little arbitrary; what do you say to that?—Of course it is arbitrary, because we consider it has always been governed by the conditions that we have been speaking about. The list has been added to from time to time, as securities of a suitable character, that come within the terms of the Act, have been created.

1868. What would you say if it were proposed to you to accept the English Trustee Stocks List?—First of all, as far as I can find out, we have never had any application to take any of these securities. The broker tells me that they are not the class of securities that are held by borrowers at all, and we have never, except just for one year or two, when we had those very exceptionally large balances, had any difficulty in lending on the very first-class securities that we have on our list. We have not until this year considered that there is any necessity to extend that list.

1869. So you would say that the list has been sufficient for your purposes, and that it has not resulted either in any difficulty in finding lenders or in any undue reduction of the rate of interest?—Yes.

1870. I see that the first securities which you mention in paragraph 5 of Appendix XI. (page 310), namely, India Debentures, India Bonds, and Guaranteed Debentures of the several Railway Companies, are taken at their par value, while Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value; what is the justification for that distinction?—That distinction was deliberately adopted because we found that it facilitated the placing of our own bonds, debentures, and guaranteed debentures. Many of the firms hold these securities very largely, because they know that they can readily bring them to us and borrow on them at their par value. There was a time when we borrowed very largely indeed through the Guaranteed Debentures of Indian Railway Companies.

1871. As a matter of security you would not say that they are better securities than Treasury bills, would you?—For our purpose they really are, because if they are left on our hands we can hold them and draw the interest, and when they mature we pay ourselves. If it is a guaranteed debenture of an Indian railway company, we call upon the company to raise debentures to pay us off; if they are our own debentures we discharge our own debts when they mature. So there can be no indirect loss. There would be the inconvenience of holding for a time, but there would be no loss of principal.

1872. *Mutatis mutandis*, does not the same apply to Exchequer Bills and Exchequer Bonds?—No.

1873. You cannot pay yourselves?—No, we cannot pay ourselves; that is the point.

1874. (*Sir Robert Chalmers.*) It is a bookkeeping point really, is it not?—It is, but if we cannot realise the money readily we can hold them for a time.

1875. (*Lord Faber.*) You would not say that a guaranteed bond of an Indian railway is any better security than a Treasury bill, would you?—No.

1876. Sir Robert Chalmers says it is a mere bookkeeping entry, therefore?—Yes, it is.

1877. I should say the security was not as good?—If you had to go into the market to sell at once, of course the Treasury bill would fetch more than the Indian railway debenture; there is no doubt about that.

1878. (*Chairman.*) Perhaps the real reason is the one given by you first of all—that it encourages the market to take these securities which you are desirous of placing?—No doubt that is the main reason. It is not merely placing, but renewing, because we have these railway debentures falling due every month. We find we can get them renewed readily by these people because they can borrow on them from us, and from others.

1879. I understand from paragraph 6 of Appendix XI. (page 310) that the responsibility for getting the best rate of interest rests with the broker?—Yes.

1880. It rests entirely with him at present, does it?—It rests entirely with him for the time. Of course, any rate he gets is criticised and looked at every week, and any opinion that the committee might have to express on the matter would be communicated to him; but the responsibility certainly rests with him.

1881. By whom is the broker appointed?—That is a thing which only happens very occasionally, and I should not like to say that there is any established procedure in the matter; but I remember the appointment of the last broker very well. The appointment was made by a letter from Lord Kilbracken to the broker, after a full consideration of other applications. Lord Kilbracken wrote in the name of the Secretary of State in Council conveying the approval of the Secretary of State in Council.

1882. For how long is the appointment?—The appointment was made for two years originally, and during that period the broker was directed to arrange for a partnership with a firm of stockbrokers to be approved by the Secretary of State. As a matter of

fact, he entered into partnership within 12 months with Messrs. Nivison & Co., and a further letter was then written to him confirming the appointment. The appointment is during pleasure, and can be terminated either by notice from him or by notice from the Secretary of State.

1883. I understand that the broker is paid for this work by percentage on the amount of interest earned during each financial year?—It is a percentage on the interest on each transaction; that comes to the same thing.

1884. What is the present percentage?—The present percentage is 2½ per cent. until 5,000*l.* has been reached, and thereafter 1¼ per cent.

1885. When was that fixed?—That was fixed in July 1911.

1886. The 2½ per cent. on the interest?—Yes.

1887. In Statement No. 2 of Appendix XI. (page 318) you give us a table which shows the total amount of the broker's commission in each of the last 20 years; I observe that the figures in some years have been extremely high; for instance, they have been three times over 10,000*l.* and once very nearly 15,000*l.*—to be exact, 14,723*l.*?—Yes. I would like to explain that up to 1888 we used to pay a percentage on the amount lent, but then it was decided that it would be much better to pay a percentage on the amount of interest earned. Mr. Bertram Currie, who was then Chairman, was asked what the proper percentage was, and he wrote: "The usual charge in such cases is 10 per cent. of "the interest, but the amount lent on behalf of the "Secretary of State is so considerable that a lower "scale will probably suffice." A scale of 5 per cent. was accordingly fixed, and this was the scale until the death of the late broker in 1903. The old broker's fees for the last three years was 7,000*l.*, 7,600*l.*, and 8,900*l.* These figures give the measure of the value of the appointment at the time the present broker was appointed. If you look at Mr. Scott's remuneration you will see that for the first five years of his appointment, that is from 1905–6 to 1909–10, the average works out to the present broker at 8,700*l.* a year. That is practically the same figure that his predecessor received during the last three years of his appointment. When it rose in 1910–1 to 16,000*l.*, and it seemed likely that large balances would still continue for some time, the matter was gone into, and Lord Inchcape asked me to interview the broker with him, and a reduced rate was recommended to the Secretary of State in Council. Lord Inchcape gave me permission, if you will allow me, to read a brief note that he wrote on the matter. He is a great authority on such questions, and I should think that his opinion would carry more weight perhaps with the Commission than anything I could say. It is not long, and if I might read it, it will put the whole case to you very clearly. This note, I might mention, was intended to be used by Lord Inchcape (then Sir James Mackay) in Council, but it was not used, and he gave it to me to be used at any time it was desired: "The "Council may be inclined to regard it as somewhat hard "to propose to reduce Mr. Scott's earnings by as much "as one-half, but arrangements of this kind must "necessarily in the nature of things be reconsidered "from time to time, and the commission earned by "Mr. Scott being now so much in excess of what the "business was worth when he got the appointment, "it is, I submit, not unreasonable to propose an "arrangement which will effect a considerable saving "to the revenues of India."

1888. What is the date of this letter?—This is dated the 20th June 1911, and the renewed arrangement took effect on the 1st July. It goes on: "So far "as can be estimated, the earnings of Mr. Scott under "the suggested scheme will give him an income during "next year of something like 8,000*l.*, the amount which "he earned annually for the first three years of his "appointment. It is true that his work will be practically double what it was, and that from this amount "has to be deducted the rent of his premises and the "cost of his staff, but putting these at 2,000*l.* a year he "will net annually 6,000*l.* On the other hand it may "be said that this is a large income, but incomes in "the City are larger than those at this end of the "town, and from the City point of view it would not "be regarded as excessive, considering the great "responsibilities attaching to the work and the "enormous value of the securities constantly passing "through Mr. Scott's hands. Having been in daily "and, I may say, hourly contact with Mr. Scott in "arranging the placing of our balances and the raising "of our loans for many years, I can speak with some "knowledge of the assiduity which he displays in his "work. He has to be at the call of the Chairman of "the Finance Committee and the Accountant-General "every business day and all day, and he never absents "himself without leave previously obtained. It might "further be said that a salaried man would do the "work more cheaply, but I am doubtful if he would do "it as well as a man paid by results. On our loans of "20 millions, if we lost even an eighth per cent. in "interest, that would cost us 25,000*l.* a year, and there "is no doubt that we benefit immensely by having a "man to do our business who is a partner in a high-"class financial house such as Nivison's and in "constant touch with the market. I don't know if "Mr. Scott will accept the reduced terms proposed, "but if we can get him to do so and leave him at the "same time valuing the appointment, as I hope we "may, if the proposal in the departmental note is "adopted by Council, I think the arrangement will be "a distinctly favourable one for the revenues of India, "and at the same time not ungenerous to a man who "has served us well." That letter gives the whole argument of the minute.

1889. (*Lord Faber.*) It is very well put?—Yes, it is.

1890. (*Chairman.*) I agree with Lord Faber that it is very well put, but I confess it leaves me with the impression that the remuneration is very high; in other words, that it is such as would more than attract the men of very high standing and position that you must necessarily obtain for the post, and that it is more than sufficient to reward them for the work which they have to do. I gather from a reference in the minute of Lord Inchcape which you read, that he, at any rate, had considered the possibility of arranging for a fixed payment?—Yes, it had often been thought of.

1891. I made some inquiries as to the arrangements made by the Treasury with the Government broker, and I find that he receives a fixed payment?—That is not for loaning, that is for buying and selling stocks. We have a similar arrangement with Mr. Scott, but it is for quite a different thing. I might explain that when I prepared the minute for the Committee, dealing with Mr. Scott's remuneration which Lord Inchcape summed up here, the transactions to which you were referring were placed before them, and we were well aware what the Supreme Court was doing and what the Comptroller-General of the National Debt was doing. Mr. Scott now has a maximum of 1,500*l.* a year for purchases and sales of stocks. We have a scale which operates according to the transactions, which is on the paper which you have before you; you will find it at the foot. The payments under that scale are not to exceed 1,500*l.* a year. The cases that you put to me are not parallel, as the class of business is not the same.

1892. But would not a similar arrangement be applicable to it?—It is possible, no doubt, to get a broker at a fixed salary, but to get a first-class man in that position, with the very great responsibility that our broker has, you would have to pay a very high salary, considering the vast volume of business that he does and the responsibility. He must have offices close to the Bank of England, because we have hundreds of thousands of pounds of securities every day passing to and from his office to the Bank, and the transmission of these things in the City from a distance is risky, and, of course, it is an impediment to business too. He has expensive offices, and he has a staff, of course, constantly employed.

1893. I think Lord Inchcape calculated that after allowing 2,000*l.* a year for the offices and staff there would remain an average of 6,000*l.* a year?—That

would depend entirely on our balances. It will not be anything like that if what we budget for is realised. If we start the coming financial year with a balance of about 4 millions, as we budget to do, the broker will not have anything like the remuneration that we are paying him now; in fact, it would not in many cases very much exceed his office expenses. If you look at the early years you will find there were many years when it did not, and the tendency is, and the wish is, to revert to the smaller balances if it is possible. Up to 1900 the maximum figure was 3,000*l.* altogether.

1894. That, of course, is one of the things which impresses one about the arrangement. If you take the 10 earlier years, the average is very much smaller than it is in the last 10 years, so no doubt the business has grown?—It has, immensely.

1895. Apparently the India Council itself came to the conclusion that the commission ought not to grow simply in proportion to the business?—Yes. Of course, we have to deal with an officer who would only accept an appointment of a certain value, and who would in every way satisfy the Government. It is a valuable post, undoubtedly.

1896. I understand you to say that in your opinion, having regard to the responsibility and the amount of his work, the average payments are not now unduly high?—I think they are not unduly high, particularly if you compare them with the scale which I suppose other brokers know of, which is paid in the City for similar business.

1897. Do you attach much importance to the reason for continuing to pay by commission given by Lord Inchcape, that you could hardly expect to get the best service of a man unless his remuneration was dependent—I think that is what it comes to—on the success of his exertions?—We deliberately abandoned the old plan of paying a percentage on amounts.

1898. In order to stimulate him to greater activity?—I think, generally speaking, it is a consideration which tends to ensure the best terms for India.

1899. It is not one which is ever applied to civil servants?—No, but then we are not dealing with civil servants, and one must look at it from the City point of view. I may say that I know the views of Mr. Le Marchant, the preceding Chairman, were very similar, namely, that in the City we must pay for a first-class man prices which, to civil servants, look very large.

1900. The figures in Statement No. 2, on page 318 of Appendix XI., I think from what you have said, do not show the total remuneration of the broker?—No. His total remuneration is shown in a statement which I think has been sent to you.

1901. Is that the paper headed "Supplementary Statement III." on page 330 of Appendix XI.?—Yes, that shows you his total remuneration. Might I supplement my last answer with regard to the scale paid to the broker? Of course, the whole of it is not personal to him; that is understood. We do not know the arrangement he has made with the firm to which he belongs; that is not his personal share.

1902. It is remuneration to the firm?—It goes to the firm, and the broker's relation to the firm in that matter we do not know.

1903. In order to make your procedure quite clear, I want to ask about the auditor. Is it any part of the auditor's business to check the rate of interest received?—Not the rate of interest received, because he, like myself, is a whole-time officer in the West End, and he would not be an expert. But the auditor would watch the balances and see that he invested them.

1904. The auditor would do that, would he?—Yes.

1905. In certain years you placed portions of your cash balances on deposit with some of the banks?—Yes.

1906. Who made the decision as to the banks to be chosen? Was the selection made in the same way as for the borrowers' list?—Practically. The Chairman of the Finance Committee, in consultation with other members of the Finance Committee, in the first place selected the banks, and they were shortly afterwards approved by the Secretary of State in Council.

1907. In that case, was it made known to the City that there was this money to be placed, and did you await applications from the banks?—No. No announcement was made.

1908. The Finance Committee, with the approval of the Secretary of State, selected certain banks and then negotiated the terms with them?—Yes.

1909. That, I think, was only intended as a temporary expedient?—A purely temporary expedient.

1910. And at the present time no money is on deposit with the banks?—That is so. We should never need to do anything of that kind unless our balance exceeded 11 millions.

1911. And that is a point beyond which you do not expect your balances to rise?—It is the point at which we stand at the present moment, but the amount will be largely reduced in about a fortnight's time when the dividends are paid on the India stocks.

1912. I see in paragraph 15 of Appendix XI. you mention two cases where apparently the approved borrowers were unable to pay on the due date; these were the only two cases in which you have had any difficulty, I believe?—They are the only two cases in which we have had any difficulty at all. Every loan has been paid without any difficulty directly the money has been asked for. But there were two cases in 1906 and 1907 in which firms were unable to meet their engagements.

1913. Did their failure to meet their engagements suggest any further precautions?—No. I raised the question again with the Finance Committee as to advancing at par value Indian railway debentures, because both those loans were in Indian railway debentures, and it was decided not to make any change. In one case I may mention that we made a considerable profit. We took the securities over and sold them and made a profit and handed over the balance to the estate. In the other case there was a small loss on the principal, but we held the bonds for a few months, sold them, and they carried a rate of interest while we held them which was higher than we were receiving in the market, and so we recouped our loss on the principal by the extra interest.

1914. You have arrangements with the Bank of England, I think, unwritten but old-standing arrangements, that your balances on each day should not fall below 500,000*l.*?—That is so.

1915. That is indirect remuneration to the Bank, I think, and you so describe it?—Yes.

1916. But you pay the Bank a direct remuneration for some of its services also?—Yes.

1917. Can you tell me what that remuneration amounts to?—I think there has been put in to-day a statement which gives you full information (*see* Supplementary Statement II. to Appendix XI., page 329).

1918. I do not think I need ask you any question on your other memorandum (Appendix XII.), on the authority required for payments made at the India Office, except this, that I see from the statement at the end of paragraph 3 that the arrangements with the Bank of England for the issue of loans were made in December 1904; but you do not say for what period they were made?—They were not made for any fixed period. The question can be raised by the Bank or ourselves at any time, but they agree with the rate that is being paid by the Treasury. If the Treasury alter their rate for similar transactions, I suppose we should do it without question.

1919. (*Lord Faber.*) I gather from you that you think the securities on which you lend are admirable and of a high class?—Yes.

1920. Do you not think it would be better, however, to add to that list of securities some first-class stocks which are registered not at the Bank of England, but at the big joint stock banks like the London and Westminster and that sort of bank; you have not got those in your list?—Yes, I do.

1921. Do you think your list is enough? In my trade as a banker we all lend on these things, and we make no difference at all. We find there is no difficulty in getting the security registered. It appears to me, looking very carefully through Appendix XI., that on one or two occasions you have not been able to find

quite sufficient securities of this class alone?—It very rarely happens, but because we could not find securities on the list as it then stood we admitted bearer colonial securities, and we have had no difficulties since.

1922. You rather astonished me in one remark that you made. I agree with you in thinking that you are wise to lend only in blocks of 50,000*l.*; it saves much book-keeping and it is easy; but then you go on and say that a man is safer if you can lend him 50,000*l.* than if you can only lend him 25,000*l.*, because he is bigger; are you still of that opinion?—I did not mean to convey that impression. I only meant that those who would deal in such large sums could produce such large amounts of securities. We satisfy ourselves before we admit them to the list that they have large capital resources. We have had applications, as a matter of fact, from very small people who offer very high rates of interest.

1923. Am I right in thinking that the Government lend at par on Indian railway debentures, although those debentures might be below par and might have some years to run?—Yes.

1924. Is that completely wise, do you think? You are letting a man borrow on security which is not full security. Instead of lending on a margin of 5 per cent., when he borrows you are letting him have more than the security; you will get paid eventually, but meanwhile he ought to be paying market terms?—That policy has been considered again and again, and deliberately adopted because, as I have said, there is a very large amount of Indian railway debt of that kind, temporary debt, which has to be renewed from time to time, and fresh issues are occasionally made. We know that people take these things and use them to borrow from us and other people.

1925. May I say this, that the borrower, if he knows his business, and if he has any Indian railway debentures, will always borrow on them before he borrows on anything else, because he could borrow more on them than they are worth?—I should have thought so, but it is not so as a matter of fact. We found when we admitted the colonial securities that some of them came and took out our debentures and put colonial securities in instead.

1926. Now, coming to the very difficult question of the payment to the Government broker, I suppose you would be of the opinion that a broker, being only human, works rather better for a percentage than he would for a fixed salary?—I should think so. I do not say how far that would actuate him, but we all of us, I think, are stimulated by feeling that we get something out of the work we do and in proportion to the work we do.

1927. Taking your figures as correct, the broker now gets 8,000*l.* a year, and I think he has to pay 2,000*l.* for clerks and for offices, unless he is in his firm's offices? Is it his firm's offices?—Yes, but he has separate rooms for our business.

1928. Does he pay 2,000*l.* for those rooms?—I do not know. He employs two highly paid clerks at least to do our business, men drawing considerable salaries; one, I know, has been with him or with his firm for nearly 40 years. As a matter of fact, the broker will be before you presently, and I dare say he will tell you what his office expenses are. It had better come from him than from me.

1929. It is difficult to decide a question of salary. I can only say that on the whole it appears to me to be large when I bear in mind that Cabinet Ministers, the largest railway general managers, and the largest bank managers, whose whole time is given to the work, and every moment of their time, do not get as much—many of them at any rate. I can speak from my own personal knowledge to that. This is a difficult thing, and I do not want to dogmatise on it; I do not say it is wrong?—I put the matter fully before the Council, and the matter was very carefully considered, especially by Lord Inchcape. I know it had previously been considered by previous chairmen of the Finance Committee, and they decided that the present scale was not an extravagant scale. You must remember that, while we have had big balances, we must look at the average.

1930. I lay great stress on what you said about the Indian Budget. As we know from studying your figures, India has much larger balances than usual owing to certain circumstances, such as its being unable to buy its railway material, and therefore the broker has had to do a great deal more in the last few years than he would have had on a general average?—Besides, we have had, as you know, large opium balances here which have been held over until temporary debt matured. All those things help the broker.

1931. I do not think you are quite aware that it is very easy indeed to check the rate that the broker gets from day to day; you can check it absolutely to a fraction by the quotations in the daily papers?—I may say that one of the best protections we have against the broker accepting a wrong rate of interest is the fact that the daily papers publish the business we do, the period for which we lend, and what we get every day. If we go wrong everybody knows it.

1932. I may say again, as a banker, that you do not get the top price for your money?—See the conditions under which we lend. We are lending public money and we are not a dividend-paying concern.

1933. You get excellent securities?—Yes, we do. A further point is that we lend for the date that we fix and that the borrower does not fix; we lend for the date on which we want the money, and we do not consider the borrower in that matter.

1934. (*Sir Robert Chalmers.*) Following your argument in favour of lending to outside brokers not less than 50,000*l.*, that same argument does not apply to multiples quite, does it?—No, not exactly. What we want to be able to say is that we only lend in blocks of 50,000*l.*

1935. So long as you say that is your minimum, your main principle, is that not enough for you?—It might be enough, but it has not been the practice. You must remember that I have to reserve some money, and that I could not even then lend right down to the 500,000*l.*, because I have liabilities coming in quite unexpectedly. Contractors expect to be paid immediately, and demands are made at very short notice, so I always keep a larger balance than 500,000*l.*

1936. It might be the case that one of the people to whom you wanted to lend might want to borrow 70,000*l.* and not 100,000*l.*?—We have never been asked to do that.

1937. Of course, because they know your practice?—They know our practice.

1938. As to the loans made to the banks in recent years, do you get any security from the banks?—None. I am told that the clearing banks—and they were all clearing banks—will not give securities under those circumstances.

1939. At the time, you were lending money to these outside borrowers, and they did give security of the special and valuable character that you have already mentioned?—That is so.

1940. You did not ask the joint stock banks to give security for the similar loans that you made to them?—No. I think the explanation given was this, that the joint stock banks object always to giving security, because it makes us preferential creditors; therefore they decline to do it, as they will not put us in a special position.

1941. I quite follow that; but take the case of one of the joint stock banks going to the Bank of England to borrow money; they would give security for their loan from the Bank of England, would they not?—That is a matter which does not come within my personal knowledge.

1942. Are you aware that in some cases some public bodies have required security?—I know one public body has required some security.

1943. I am anxious to elicit your opinion: Would the requirements of such special securities from these banks mean a reduction of the rate payable; do you think so or not?—I do not think it would, but I am not in a position to say.

1944. Is it not the case that these loans to the joint stock banks and so forth were wholly exceptional?—Yes.

1945. And are not likely to recur?—Yes.

1946. Coming back to the particular case of the exceptional circumstances in which loans were made by the India Office to banks, to what extent were members of the Secretary of State's Council interested in any banks to which loans were made?—Do you mean that you want to know how many members of the Council were so interested?

1947. Yes, the number?—There were two that I know of and only two, that is to say, two actual members. There was also one ex-member.

1948. I meant the number of actual members at the time the loans were made?—Two at the time.

1949. Was there any question raised, so far as you know, as to the policy of making loans to banks with which members of the Secretary of State's Council were connected as directors?—I know the question was raised, and the possibility of parliamentary criticism on lending to banks represented on our Council was fully considered. I called attention to it in a Council Minute dated December 1911. The Secretary of State, however, approved the action and thought that under the circumstances it was the most suitable thing to do. Absolute security, as far as we could attain it without the deposit of securities of any other kind, was the thing we aimed at. Our own members of Council knew the banks with which they were connected, they knew exactly what they would do with the money, and that special steps would be taken to secure its availability on the day we might want it. We might have lent to other banks who might have been equally secure, but we should not have known, as we knew in the case of these banks, exactly what was done with the money.

1950. The possibility of hostile criticism was recognised in advance?—And it was fully considered.

1951. As to the composition of the Finance Committee, that, I think, is exclusively, is it not, like the composition of every other committee, at the discretion of the Secretary of State?—Yes.

1952. Is there anything that differentiates the Finance Committee from any other committee as regards the principles on which it is formed?—Yes. We have always had the City representation on the Finance Committee; in that sense it is special. It is usual, I think—though of course these matters are not really in my department, they belong to a higher authority than myself—just as there is a military member generally to represent military finance.

1953. That I quite understand, but I was not speaking as to the personnel composing the Committee. Committees are appointed by the Secretary of State for finance purposes, military purposes, and so forth, and there is nothing as regards the mode of composition or of appointment which differentiates the functions of the Secretary of State in connection with the Finance Committee from his functions in connection with any other committee, is there?—Nothing that I know of at all.

1954. And the Chairman of the Finance Committee, as of any other committee, is, as a rule, I understand, appointed in an informal way—designated, may I say—by the Secretary of State, and holds office at the pleasure of the Secretary of State?—Of that again I am not quite sure. These matters are decided in Council, so I probably am not a suitable witness to put the question to. I can only speak of what I know in the particular case of the Finance Committee.

1955. I understand that by law no business can be placed before any committee or before the Council except by the Secretary of State, or the Under-Secretary acting on his behalf; and no member of the Council can legally take part in the business of any committee unless requested to do so by or on behalf of the Secretary of State; is that correct?—That I understand to be the case. That is why the minutes of all the departments go to the Under-Secretary, who, in the name of the Secretary of State, writes, "Direct to be sent to" this committee or that committee or to more than one committee.

1956. (*Mr. Gladstone.*) I think the Chairman referred to the list of borrowers against security which you give in Appendix XI., pp. 315–6, as being a somewhat arbitrary list; is this not partly due to the fact, perhaps, that it is not generally known, or was not generally known, that firms and other suitable people could get on the list by application?—We do not advertise it in any way. We never ask people to join.

1957. I, for instance, am in the City, and I did not know how the list was composed; now I do. I think if it were desired to widen the list—it probably will be known now—you will have further applications from people who will be suitable?—An announcement was made in Parliament that applications will be considered, as they always have been.

1958. With regard to making advances at par on India Debentures, India Bonds, and the Guaranteed Debentures of Indian Railways; I do not quite appreciate the difference between Debentures and Guaranteed Debentures?—Guaranteed Debentures are the debentures of a railway company. The India Debentures are debentures of the Government of India.

1959. Do you think it is quite sound to advance on their par value? Would it not be better to put these securities into the list for market value, even if the cover was reduced somewhat from 5 per cent.? I do not quite see why advances should be made on securities above their market value. If that practice were abused, bankers could buy these securities below par value and then obtain the full par value from you and have a permanent margin?—There is, as a rule, very little difference, because these bonds are renewed from time to time on terms that practically bring them to par every time they are renewed.

1960. It would only be a matter of ½ per cent. then?—Say of 2*s.* 6*d.*, or something of that kind. There has been very little in it.

1961. (*Lord Faber.*) They have been a good deal under par just lately, but that, I suppose, is exceptional?—Yes. That will be readjusted when the time for renewal comes.

1962. (*Mr. Gladstone.*) Then with regard to the list of borrowers; it being your practice to demand a margin of 5 per cent. on market values, you are practically secured except against fraud on these loans?—Yes.

1963. A 5 per cent. margin on securities of this character is a very large margin?—It is.

1964. With regard to the rate that you obtain, some reference has been made to the top price. You have referred to the rates of interest which are published in the newspapers, and have stated that that makes it possible for you to check the broker; are you satisfied that he does get you a very good rate?—That is not, of course, my check. Personally, I can have very little knowledge of the prices of the market at the time, except what I may read in the newspapers; but the City members of the Finance Committee are in close touch with the hourly movements of money; they check it, and we have, as I say, the additional security which publicity gives as to what we do.

1965. My own experience is that you do get a very close rate?—I think we do.

1966. I had an instance only two months ago, where I lent 150,000*l.* The National Discount Company took it, telling me that a similar amount had been called in by the Secretary of State that morning, I got from them something like the same rate, 4½ or 4¾. That gave me the impression that the India Office did their business uncommonly well?—I think my observation would entirely confirm your view, that the broker does everything a man can do to get the best rate he can.

1967. No doubt you could look up this actual transaction if desired. We have not had before us a list of the joint stock banks with whom deposits were made?—The names have been published in answer to a question in Parliament. Of course there is no objection to giving them.

1968. (*Chairman.*) I think we ought to have them?—The names are the National Provincial Bank of England; the London County and Westminster; the Union of London and Smiths Bank; the London City and Midland Bank; Glyn, Mills, Currie & Co.; the London Joint Stock Bank; and Messrs. Barclay & Co. Other banks have applied, and they have been

told that if the practice were resumed their names would be considered.

1969. (*Lord Faber.*) You have got quite first-rate banks on your list?—I think so.

1970. (*Chairman.*) Other banks you say have applied since—since when?—Since the parliamentary questions were asked.

1971. That is, since it became known that you had been lending in this way?—Yes.

1972. (*Mr. Gladstone.*) Did you consider the financial position and general standing of those banks was so high and undoubted that really it was almost superfluous to ask for security?—I could not judge of that, but our two City members, who were bankers, thought they would not give security.

1973. Do you not think they were probably influenced by the fact that if you did ask for security the rate of interest would undoubtedly be lower? Is it not the regular practice to make a difference in the rate in the case of high-class institutions whether security is given or not?—It is quite possible, but that is a practice that I cannot say that I am aware of myself from any personal knowledge.

1974. With reference to Mr. Scott, do I understand that he gives his whole time to the business of the India Office?—Practically; that is to say, we have the first call on him at any time. At any business hour of the day either a member of the Council or myself can obtain his services at once for anything that is wanted.

1975. In deciding that it was preferable to utilise the services of a broker of the highest possible standing in the City, I suppose the opinion was that he would have better opportunities of getting the best rates than a salaried man who might not have the same opportunities of gauging the market?—I think one reason was that we wanted the broker to be associated with a firm which contained partners with large financial knowledge as well, and in his absence one of them has to do his business. If you take a firm like Messrs. Nivison, I do not consider that they are overpaid by the office for the work that they do.

1976. In other words, you consider that the income of each individual partner in Nivison's is considerably more than 8,000*l.* a year, quite apart from India Office business?—I have no means of judging that, but I should think it is very possible.

1977. The business conducted by Mr. Scott. that is, the daily transactions against securities, and the moving of them from one firm to another, and from the Bank backwards and forwards, is a very laborious and responsible business, is it not?—Undoubtedly. It would be a very serious matter if anything went wrong with any of them.

1978. On the estimate of 2,000*l.* for expenses, which Lord Inchcape mentioned, does that not strike you as rather low? Knowing the rents, for instance, which have to be paid for offices near the Bank of England on the ordinary scale, I confess I should be astonished to hear that an office could be run near the Bank of England to transact this business for the India Office on 2,000*l.* a year?—I think I know the salaries that are paid, and that allows me to judge how much is left for rent. Considering the very important position of the premises and so on, I certainly think that 2,000*l.* a year is not an excessive estimate of the cost of the office. It is immediately opposite the Bank, on the other side of the road.

1979. I see in Appendix XII. you make a reference to the purchase of stores (pp. 331–2). Without going into details, I would ask whether in the interests of Indian finance it might not be desirable to purchase stores, railway material, and other things far more freely in India than is now the practice, even although the material may come from Europe? Payment, of course, would then be made in India, the quality of all goods would be checked there, presumably, and of course it would be popular in India, the idea of traders in India being that a great deal more business of that kind should be done there?—I know this matter has been very fully considered for many years, but it has not taken place in my department, and I do not think I could make any statement that would be of much use to the Commission. It is a matter for the Director-General of Stores.

1980. (*Mr. Keynes.*) What are India Debentures, which are the first stock referred to by you?—We have no India Debentures outstanding at the present time, but we had some a few years ago. They were simply debentures running for seven years. It was found convenient to raise money in that way instead of raising it by India Stocks, or by shorter-term securities such as India Bills or India Bonds.

1981. May I understand that the securities placed in the first class in paragraph 5 of Appendix XI. (page 310) have two advantages, namely, that they are received at their par value, and that they are also free from the liability to the provision of cover?—Yes; those three classes of Indian securities stand in the position you state.

1982. They have got both advantages?—Yes; we advance at par and there is no cover.

1983. With regard to the remuneration of the broker, it is in proportion, as I understand, to the interest that he earns, and therefore it depends not only on the volume of business, but also on the rate which prevails for money in a given year?—Yes.

1984. I notice that for a large part of 1912–3 the rate of interest shown in Supplementary Statement I. to Appendix XI. (page 328) was much in excess of what it had been in some previous years, because the prevailing rate of money was higher in that year. The figures for 1912–3 are perhaps 50 per cent. higher than the figures for 1911. Therefore the broker would be getting a remuneration 50 per cent. higher through no virtue of his own, but because the rate of money all over the market was higher in that year than in the preceding year?—That is so.

1985. It would be a purely casual remuneration which had no reference to the volume of business or to the trouble or skill which was involved?—That is so, but you must set against that high rate the 1·79 rate which you get at the top of the table. It is an average rate.

1986. I was leading up rather to the point that, if you wish to pay the broker by commission in order to make sure that he will use all his skill, the results of his skill are shown rather in the excess that he gets over a certain amount than in the absolute amount; that is to say, if he is skilful he may get 4¼ per cent. instead of 4⅛?—Yes, if he is skilful and persistent.

1987. Do you measure his skill by the amount he gets in relation to the average Bank Rate in a given year, or something of that sort, rather than by the absolute total he gets?—We do not consider the Bank Rate has any reference at all to this. The Bank Rate is very often ineffective, and generally applies to rather a different class of transactions from those. It really, as far as we can see, has very little reference indeed to the particular rate that we get.

1988. (*Lord Faber.*) This is what bankers call day to day money, which is quite a different thing?—Yes, it is.

1989. (*Mr. Keynes.*) Would you agree that the amount extra which he can get by his skill is quite swallowed up by the fluctuations due to variations in the general rate for money?—Both of the reasons you have given operate, but it would be difficult to say precisely how far the broker's skill, or the movement of the market, affected a particular transaction. His skill consists in getting the highest rate under the existing market conditions. I am afraid I could not express an opinion as to how far a particular rate was dependent upon the broker's skill.

1990. Suppose that in a given year, or in a given month, he is earning for you 3½ per cent., and by his skill he gets an eighth per cent. more than if he had been less skilful, the proportion of his income which is affected by his additional skill is about one-thirtieth?—Yes, but that might make, over a large sum, a very considerable difference. As Lord Inchcape pointed out, at the time we had 20 millions out an eighth per cent. on our interest would have meant 25,000*l.*

1991. (*Lord Faber.*) I should say both his skill and the money market have to do with it?—They have to

do with it, but I cannot say how much belongs to each.

1992. (*Mr. Keynes.*) If he is getting a net income of 6,000*l.* a year, one-thirtieth of that is 200*l.*, which is something trifling to him?—Yes.

1993. So the amount of difference to his income that his skill makes is very small?—No. Knowing the very great pains he takes every day to ascertain the rate, and to get the best rate, I should say that we owe a great deal to his skill and persistence.

1994. I am not disputing that the India Office does not gain large sums by his skill, nor am I denying the exercise of it; all I am saying is that his skill makes very little difference to his own income?—It is not very large, but of course he has a financial interest, and where people have a financial interest they will work. I do not think, generally speaking, it is wise to rely on a man doing his best simply because of principle; if you can give him an incentive in the way of inducement, even if it is small, it helps.

1995. I wish only to suggest that the amount of incentive which has been given him in this way is scarcely sufficient to justify a system which might be open to objection on other grounds?—I am inclined, looking at it generally, to think that the wisest plan (and it is the City plan, generally, I think) is to pay by what you might call piece-work, that is to say, to make the remuneration depend, where possible, upon results.

1996. I understand that, apart from deposits in banks, you never lend for more than six weeks; and generally for less?—There is nothing to prevent my lending for more; six weeks is not laid down as a maximum, but that has always been the practice, and it is well understood, but there is no minute on the subject. When we decided to lend for longer periods on deposit no minute was required, that is, no fresh minute from the Secretary of State, on that point. I think I explained to the Chairman that our reason for the six weeks is that it is very undesirable to let our balances go out of our control for a long period. We can never tell what may happen in another part of the world which may make it necessary to make them available, and we can never tell what may happen to any particular firm which may make it desirable to call the money in at no distant date.

1997. (*Chairman.*) Shall we put it in this way, that you are playing for safety?—The entire game is for safety, if I may put it in that way.

1998. (*Mr. Keynes.*) If the reason for lending for short periods is put on the ground of safety, are you not sufficiently secured, in the case where, for example, Consols is the security, if you take a margin of five per cent.?—No, because in practice we find there are difficulties in the way of realising our security immediately. The two cases where we had to realise them were where we found ourselves grouped with other creditors, and the Secretary of State had to consider what other creditors were doing, and to some extent act with them. As a practical matter what happened was this: Some of the creditors refused to take over their securities and give a release, and some agreed to do so; the Secretary of State declined to do so, because it was thought that the defaulter had other means and there might be something more than the security available. Eventually all the creditors accepted their securities, and then the Secretary of State accepted his, although at the moment they could not be realised to produce exactly the sum. This took some little time. As a practical matter the money was not available immediately. So it would generally happen that, unless we were forced to do it, we should not take an isolated line, but we should act in concert with other creditors of the firm. That is what happened in those two cases.

1999. In both of those cases the securities were of the exceptional class in which no margin was taken?—Yes, those cases were so. The probability is that there would be some formalities, as there were the last time. We should have to arrange with the representatives of the broker that we should take them over, and there would be an exchange of documents which would give effect to these arrangements.

2000. If you took a margin and it more than covered your loan no difficulty could possibly arise, as you would immediately accept your security if it more than covered your loan?—We should do so if we were obliged to do so, no doubt, but, in the only two cases I have come in contact with, the Secretary of State thought it was better not to take an isolated course, but to act in agreement with other creditors.

2001. (*Lord Faber.*) When you lend on security you lend on collateral security, and if the man fails, you first of all get a dividend and then you come back on the security?—Will you please look at the form of agreement?

2002. You ought to do that?—The first security we have consists of the securities deposited, but the estate makes good any deficit, if there is one. It is expressly laid down in the agreement.

2003. I am surprised at it. My point is that generally when you make a man a loan you take the security as collateral, and then if there is a dividend you get that?—If you will kindly look at the form of agreement in my Memorandum on the Placing of Cash Balances, pp. 314-5, you will see exactly how we stand. That says, "We hereby authorise you to sell "immediately all the securities accepted in respect of "this advance, and to repay the advance with all "interest then due, so far as the proceeds of sale will "allow; and we hereby undertake to repay any "deficiency which the proceeds of sale may fail to "discharge." So our first security arises out of the securities deposited; and in the second place we have a claim against the estate of the defaulter.

2004. You can easily have it worded in another way by which you come first of all on the estate and then on the security; that is done by bankers every day of the week?—This was drawn up by our legal adviser. I do not know whether he is aware of that practice, but it is a useful thing to know.

2005. (*Mr. Keynes.*) The point I am trying to bring out is merely this, that with the exception of the first class, India debentures, India bonds, and guaranteed debentures, you have taken absolute security?—Yes.

2006. But in these three cases you have not taken absolute security, and you have twice been in difficulties?—Yes, that is so. They were not serious difficulties in any way, not even inconvenient.

2007. Some slight difficulty—may I put it like that?—No, I do not think practically there was any inconvenience; there would have been if we had wanted the money very badly, but it did not really matter at the time. I should not like you to think that the finances of the Secretary of State were in any real difficulty at all.

2008. I am pursuing my original point, that in those cases where you are perfectly secured there is no reason for taking into account the consideration of safety when you are thinking of the period for which you should lend; it is only if you are not perfectly secured that that is a relevant consideration?—There is a larger consideration, that we may want to realise our whole balance, owing to foreign complications and those sort of things.

2009. I was not taking that point now?—There remains that point, even if you say we are fully covered by the securities deposited with cover. I was trying to make it clear that it is a little difficult for the Secretary of State to realise immediately, even where he is supplied with cover. He would probably be asked to fall into line with other creditors, and so on.

2010. I do not understand why that should be so where there is a 5 per cent. margin?—It possibly may not be legally necessary to do so, but I may say that people would look a great deal to see what the Secretary of State was doing, and if he took any course that seemed harsh to a creditor or anything of that kind, he might be supposed to be giving a lead. As a matter of fact, the Secretary of State would sooner stand and see what other creditors were doing, unless it was absolutely necessary to realise for the security of the India Office.

2011. I do not feel that I have quite got an answer to the point that I was trying to raise, but

I will not pursue that question further. There was a possible implication in one of your answers to Sir Robert Chalmers which I should like to clear up. Are we to understand that the banks represented on the Secretary of State's Council had a certain advantage when deposits were being made, in that you were in a better position to know exactly how they would treat your deposit?—No, those banks were not in a better position, and I will not say that it placed them in a better position because those who were responsible for our money were represented on the banks and knew exactly what the banks were going to do with it. The chairman, who had to decide how these large sums of money could be placed with the greatest safety, naturally would feel with regard to the money that was to some extent under his direction that he would know what was going to be done with it, and that it was safe in that sense.

2012. Did the fact that you had authorities of these banks on your Council make it more probable that the Secretary of State would choose their banks than that he would choose different banks?—There was some advantage in doing so, but that is all I should wish to say. It was known that special provision would be made, and it was known what class of business the banks were doing. With regard to some other banks, I do not suppose anyone at the Council would know with the same degree of certainty exactly what was done with the money.

2013. (*Sir Shapurji Broacha.*) There was at one time a great outcry, often repeated, that you lent at 2½ per cent. and borrowed at 3½ per cent. To a banker that seems all right, because it is better to keep money employed than for the money to lie idle. Still, as you had those large sums to lend, could you not have foreseen that a certain amount would fall due, say, on the 5th June, and when lending that money in April, say, only lend it up to the 5th June? That would have avoided the outcry of the man in the street, who does not understand these things?—What do you mean by money falling due?

2014. Say that you lend to-day a million of money for two months, and yet on the 30th June some money is falling due for payment; could you not manage it so that you would only lend so much for two months or six weeks, so as to be ready with the cash when this payment was due?—Perhaps the simplest way would be to explain exactly on what principles I do place this money. I take six weeks as the maximum for lending, and I should look to that six weeks and make the best estimate I could of all the special payments that have to be provided for, including payments of interest, the maturities of debentures and so on. I should also calculate the amount that would have to be paid in pay, pension, retired pay, and all that kind of thing. I should make ample provision, in fact, for all special liabilities first of all; then I should take the rest and distribute it pretty evenly over the days; that is to say, every business day I should put a certain amount upon that day after I had provided for special liabilities. Of course there is more on many days than I want, and then if it is not wanted it is renewed, but I do provide for all special liabilities that I can foresee, and distribute the rest evenly over the period.

2015. I do not criticise your lending at all, but I say that by timing the payments you might prevent the man in the street crying out about it?—I do not quite appreciate your point.

2016. You are lending to-day a million for six weeks, and the Secretary of State has to pay a quarter of a million at the end of the month; could you not lend three-quarters of a million for the six weeks and a quarter of a million until the end of the month when the Secretary of State has to pay that money, so that the difference between the rate of lending and borrowing would not be noticed; it would only require a little care?—I think the criticism about borrowing arose from the fact that we renewed India sterling bills for a certain period—that is what called attention to it—and we were not earning as much interest as we were paying at the time. That was the cause of the criticism.

2017. You might have lent up to date, and then again borrow at the rate you lend, on the same day?—I am afraid I do not quite understand your point, or its relation to the criticism to which the office has been subjected.

2018. If you had a million to lend for six weeks, and of that million you required to pay a quarter of a million on the 30th June, could you not have lent three-quarters of a million for six weeks and a quarter of a million only up to the 30th June, the date the Secretary of State has to pay that money?—Do you mean that after providing for absolute requirements could I not lend the surplus money up to the extreme limit?

2019. (*Mr. Keynes.*) May I put it like this—that up to the six weeks you do consider very carefully the commitments that you have in view?—Yes.

2020. But that beyond six weeks you do not?—I should not like to say I do not, but not in loaning.

2021. Not in loaning is what I mean?—Then I do not.

2022. So you are not open to Sir Shapurji's criticism up to the six weeks?—No.

2023. But if he applies it to purposes beyond the six weeks, then your defence, if you have one, is a different one?—Does Sir Shapurji mean that after providing for all the liabilities that I can foresee I should let the surplus go for a longer period?

2024. (*Sir Shapurji Broacha.*) That is what I say?—Of course it might be done, but it has not been done, and the reasons have been, as I say, that we have been a little bit careful. We are the largest lenders of public money, and I think it is a good sound principle not to part with your money for a longer period than is necessary, because emergencies do arise and we can get our full balances within six weeks at the outside. As I said, there is a further advantage, that it enables us in a particular case to call in money at no distant date, whereas if we lent it for some months we might see difficulties coming, and yet be powerless to take measures against them.

2025. It has been stated in evidence that the Bank of England requires half a million to be always kept in its hands, and that you should give notice the day before when you require money, so that you cannot lend the same day that you receive the money?—Generally I can; but in Appendix XI., page 319, I state that where we have heavy payments to make the Bank expect us to make provision the previous night, and that is in accordance with what they do with the Treasury.

2026. And that makes you lose one day's interest?—Yes.

2027. It would not matter to the Bank of England to allow you to overdraw for a few hours, as before the Bank closes it would be paid up; it would not be a loss to the Bank of England, but it is a loss of one day's interest to you?—We are quite alive to that, and we have tried very hard to get it remedied. The reply has been that if the concession is given to us it will have to be given to His Majesty's Treasury, and the Bank will not move in the matter.

2028. I think the Bank has a large sum from the India Office; still that is another matter?—We have often tried to get the Bank to strike our balance at 4 o'clock in the day, but they will not, and I have to write off the amount necessary to meet a big liability at 10 o'clock in the morning, and therefore I have to provide the balance the previous evening.

2029. Your approved borrowers are confined to a certain number, and you cannot lend beyond those approved borrowers?—That is so.

2030. It often happens that one of the approved borrowers on a given day does not want to borrow at the same rate as another approved borrower borrows, but it would not pay you to keep the money idle, so you may have to take from one man an eighth less, or a sixteenth, and so on, during the day?—As a matter of fact we get almost universally the same rate from all our borrowers for the day. The booker has to find the best rate which can be obtained, and he gets that

from all the borrowers. If any borrower will not pay that rate—and that frequently happens; if he says no, that is not the rate, or it is not a fair rate—then the money is taken from him and given to someone who will pay that rate.

2031. If you have a million to lend these 62 people, and only 40 or 50 of them will take half or three-quarters of the million on a certain day at 2¾, or something like that, then you are met with the question whether you should not lend the remaining portion of the million at some concession rather than keep it idle over the day?—Sometimes the broker has held money over, thinking it would pay the office to lend it from the next day, because he could get a better rate than, perhaps, on the previous day. That the broker would consult me about.

2032. Discrepancies in the rate do occur, and you will find it sometimes three-sixteenths in the morning and three-eighths in the evening, so you cannot lend all your money on the same day at the same rate?—Perhaps not if the amount is very large.

2033. (*Mr. Gillan.*) You say in paragraph 14 of Appendix XI. (page 312) that the broker is usually not able to lend to the approved borrowers on security a larger sum than from 10 millions to 11 millions; what is the limiting factor?—The limiting factor is that it is usual in the case of smaller firms to impose a limit, and there is also an implied limit with the large firms. Then we find in practice that some 15 or 16 people on the list rarely take our money, and when we have lent to all those on the list up to their limit, and have also lent large sums to other firms who are not specifically limited, we find that the total amounts to about 11 millions.

2034. I was thinking more particularly of the memorandum of Mr. Abrahams where he spoke of the supply of the securities required being limited?—That element has come into the matter very recently. We have bought large railway systems of India, and we have taken over the debentures which they have raised, and they have become India debt, and we have been obliged, as they matured, to pay them off. Whereas about eight or nine years ago we had 18 millions in the form of bearer debentures, we have now only about 12 millions; so the market has become more limited, and we have recently taken Colonial Treasury bills and bonds partly owing to that difficulty.

2035. So it is partly a limit of the amount and partly a limit in the class of securities that can be deposited?—Yes. I cannot say how far now it is due to limits of securities, because there is a very large number of Colonial bonds on the market.

2036. (*Chairman.*) When that difficulty arose to which you have just referred, did you take any steps to increase the number of approved borrowers?—No.

2037. Did you wait for them to come to you?—Yes.

2038. It did not occur to the authorities of this office that it might be well to instruct the broker to see whether there were not other houses of equal standing who might be glad to come upon the list if the existence of the list was brought to their knowledge?—That was not done. I think there was perhaps some difficulty in taking that step, because if we approached any firm we should be obliged to accept them; we could not invite them unless we were fully satisfied ourselves that they were a suitable firm.

2039. You would have to make your inquiries beforehand?—Yes, and not after. It was not done, because the difficulty was considered to be a temporary one.

2040. One other question with regard to the position of the broker. I have here a letter explaining the terms made by another public department with their brokers, in which they say their brokers are paid an annual salary, which covers all the work done, including commission. I, of course, accept from you what you have said, that their work is not as extensive as the work of the broker of the India Office?—I know the department to which you refer, I think. They do not loan out; it is a different class of work.

2041. The work is not co-extensive with the work you do?—It is not the same in character. The work that the broker does for them is in the purchase and sale of stock. Our broker's commission is for loans, as the main work he does for us is loaning our money, which is a different thing. I suggest that the things are not comparable.

2042. I understood you to say that, as far as he is selling stocks or purchasing stocks for them, he is paid by a fixed salary?—No, he is paid by a maximum salary, the maximum being the sum which you have in the paper before you. He is really paid very much less in average years.

2043. The letter which I have in my hand, speaking of the salary which is paid to their brokers, says "Naturally the fact that they"—that is, their brokers—"are known as the Government brokers brings them "a lot of private business." Is not the position of broker to the India Office worth something more than the salary in the same way?—I should think it probably was, but the broker has told me many times that he never has asked any firm with which we deal to place business in his way in consequence of it, and he is not conscious that they do.

2044. I did not mean to suggest that he was trying to use it in that way?—Nobody expected at all that people doing business and borrowing money from us would necessarily go to Mr. Scott with other business because he was our broker. I dare say it is an advantage to him, as it gives him a position in the market.

2045. You would perhaps agree that it was probable that the position of broker to the India Office would have a certain prestige attached to it?—Yes, that is so.

2046. Which might be a valuable consideration if a man was considering whether the terms of remuneration offered were sufficient to tempt him to take the office?—I certainly agree with you.

2047. (*Lord Faber.*) You were good enough to give us some figures about the Bank of England, and the condition of the account with the Bank of England. That seems to me rather an important question, and I have looked at the figures. You have prepared one paper entitled "Statement of Payments to the Bank of "England and the Bank of Ireland for remuneration "in respect of under-mentioned services." (Supplementary Statement II. to Appendix XI., page 329.) Looking back at the last six years to the total payments made to the Bank of England, I find these figures—61,489*l.*, 60,842*l.*, 65,166*l.*, 72,767*l.*, 64,539*l.*, and 66,574*l.* That is the amount of the payments which the India Office actually made to the Bank for services performed?—Yes.

2048. Then I learn from the explanatory note B. to Statement No. 3 on page 319 in Appendix XI. that you are under agreement as well to do a very important thing, namely, to keep a balance of 500,000*l.* at the Bank of England without interest?—Yes. Assuming that our minimum balance is 550,000*l.*, which in practice it is, we estimate that to be worth at 2 per cent. 11,000*l.* a year, at 2½ per cent. 13,750*l.* a year, and at 3 per cent. 16,500*l.* a year.

2049. When I come to look at the balances actually at the Bank of England, the figures of which you are good enough to furnish us with for 1912–3, I find that the balance has very often been a great deal more than 500,000*l.*?—That is so.

2050. In the last two years, which perhaps it is not quite fair to take, the balance was on one occasion 1,200,000*l.* and on another 2,295,000*l.*?—Which paper are you referring to?

2051. Statement No. 3, on pp. 320–7 of Appendix XI. If you look at those balances you will see that they run very high, and they are exceedingly valuable, of course, to any bank?—You will notice, if you look at column 4, that whenever there is a high balance, provision is made for a big payment next day in column 2.

2052. I dare say that may be so with the very high ones, but if you run your eye down the daily list you will find it is often about 600,000*l.* and 700,000*l.*?—Yes, it is.

2053. During the last two years I think I should be under the mark if I said that on an average that balance had been worth 3 per cent. all the time, and sometimes a good deal more. It comes to this, that

you not only pay them 66,000*l*., but you have paid them 20,000*l*. a year, I should think, in one way or another, for interest; that is, you have paid 86,000*l*. a year to the Bank of England. That seems a great deal, does it not?—Yes. I have called attention to that time after time, and our Finance Committee and the Secretary of State have made many representations to the Bank of England when we have had opportunities. Of course, we make agreements with them for certain terms, and we have done our utmost to get the rates reduced. Personally, I must say I think we pay very heavily.

2054. (*Mr. Keynes.*) Now that that question has been raised, I see that the minimum charge for the management of the rupee debt is 8,000*l*.?—Yes.

2055. What is the amount of the rupee debt now on the books of the Bank of England; I think it does not much exceed 7 millions, does it?—Yes; I think I am right in saying it is 12 millions.

2056. (*Mr. Gladstone.*) But it has been very much lowered?—Yes, it has fallen very much; it has fallen from about 18 millions to 12 millions.

2057. (*Mr. Keynes.*) Therefore the remuneration is now at the rate of more than 1,000*l*. per million?—I have here some papers about it. That matter was very fully gone into with the Bank and the terms for the rupee debt were raised in consequence of their representations. They represented that they were actually losing heavily on the scale we were paying before, owing to the staff they had to maintain and the separate office. They said a minimum must be fixed or the business would be unremunerative.

2058. Why do they have to have a separate office for the rupee debt as distinct from the other debt?—They say they must have a separate staff for it.

2059. I suppose that practice grew up when the amount of the rupee debt held in this country was very much greater than it is now?—No doubt. This is what the Bank said in a memorandum† forwarded to the India Office.

2060. What date is that?—1905. This was when the last agreement with the Bank was entered into. They commence their statement with regard to the rate of remuneration then existing by saying, "The charge for the management of these securities"—that is rupee securities—"was fixed in 1898 at a figure "which has proved to be wholly unremunerative to "the Bank. A separate office has to be maintained "for the transaction of the work, which requires "extreme care and is attended with considerable risk" —and then there is a long story which I need not read. The Commission will remember that we are not exactly in the position of free agents in our relations with the Bank of England. The Government of India Act of 1858 has tied us absolutely to them, and it provides that they shall be remunerated not on any scale fixed by Parliament but on a scale to be agreed upon; but seeing that we have no option but to go to the Bank, our negotiators, of course, are in a position of considerable difficulty.

2061. You would agree, would you not, that a system which costs 1,000*l*. per million for the management of the rupee debt seems, *primâ facie*, an extravagant one?—It would appear to you and to me so, but, of course, we cannot go to the Bank of England Accounts and go into that. One must accept it that that is their view, and that they have good reasons for the view they express.

2062. (*Sir Robert Chalmers.*) In your relations with the Bank of England you are, to a great extent, conditioned by the arrangement made by the Treasury with the Bank of England, and you always would have that in view?—Yes, we have always had that in view.

2063. The arrangements with the Treasury are statutory under an Act of 1892, with which, I presume, you are acquainted?—Yes, that is so.

2064. That Act prescribes definite rates, 325*l*. for every million of debt up to 500 millions, and thereafter at the rate of 100*l*. for every million, and so forth?—Yes.

2065. That is an agreement and is a statutory agreement?—Yes.

2066. Section 4 (2) of the Act of 1892 goes on to say that those terms shall be in force until 1912 and thereafter until Parliament otherwise directs?—Quite so.

2067. So you cannot move very vigorously until Parliament has otherwise directed in respect of the Imperial Treasury?—Quite so. Might I say that the Chancellor of the Exchequer's attention was called to the possible termination of the present terms, and in a reply he gave in the House of Commons he said he was considering them, but it was not his immediate intention to take any action.

2068. All that is very present to the minds of the authorities of the India Office?—Yes. All those terms were fully before the Bank and the representatives of this office when the matter was discussed at the Bank.

The witness withdrew.

Mr. HORACE H. SCOTT called and examined.

2069. (*Chairman.*) You are the Secretary of State's broker?—I am.

2070. How long have you held the position?—I was appointed in January, 1904.

2071. I understand from Mr. Badock that when you were appointed it was made a condition by the Secretary of State that you should join a firm to be approved by him?—That is so.

2072. I understand that you arrange all loans on behalf of the Secretary of State?—Yes.

2073. You also carry out all purchases or sales of securities on his behalf?—That is so.

2074. Do you do any other work for the office, or does that cover your business?—I attend to give advice as to the renewal of Indian railway debentures, and am always at the call of the Chairman of the Finance Committee and the Accountant-General.

2075. We have had before us the list of securities on which the India Office lends; may I, in the first place, ask whether you think the distinction can be justified which is drawn between, on the one hand, India debentures, India bonds, and guaranteed debentures in the several Indian railways, which the Secretary of State takes as security at their par value, and, on the other hand, Treasury bills, Exchequer bills, and Exchequer bonds, which are taken at their market value?—The borrower just has to make up the rebate on such things as Treasury bills and Exchequer bonds, some of which run into 1930. I think it is to the advantage of India to take their own securities at par value—I mean not to depreciate their own securities.

2076. Regarding the India Office merely as lenders for the moment, there is no reason in the nature of the security why they should take those above their market value, is there?—No, not in the nature of the security; but by doing so they are able to issue or to renew debentures on more favourable terms than if they asked for a margin on such things.

2077. On the other hand, we have got it in evidence that on only two occasions, I think, has there been any difficulty with borrowers?—That is so—only two.

2078. And on both those occasions the difficulty arose in regard to this class of security against which loans had been made up to their par value?—That is so.

2079. Do you not think that, on the whole, there would be something to be said at least for not lending above their market value?—No, I think it would be advisable to leave things as they are. Some years ago, when money was very easy, debentures were issued on a 3 per cent. basis, but now, although they are nearer maturity, they are not worth par, I suppose they are about 99.

2080. In cases now it would pay a would-be borrower to go out into the market and buy these securities, because he could get from you immediately actually more money than he had paid?—Yes, that

† Not printed.

has been so. You mean that a man with 99,000*l.* might get something worth 100,000*l.* immediately?

2081. Yes?—Still, you gain by being able to issue them and renew them on more favourable terms on this account.

2082. So you would say, would you not, that having to balance the interests of the Indian Government as a lender against the interests of the Indian Government as a borrower, you think the interests of the Indian Government as a borrower ought to prevail in this case?—I do.

2083. As regards the list of securities as a whole, is it ample for your purposes, or have you ever had any difficulty in lending as much money as you wished to lend on the securities included in this list?—Only when we have had a very large amount out. In normal times I mean, when the amount out has been considerably less, there has been no difficulty whatever.

2084. You could enlarge your list without taking any less good security, could you not?—The list has been enlarged within the last two or three months, and that has helped very considerably.

2085. I think I gathered from Mr. Badock that the India Office confine you to securities which are registered at the Bank of England?—Yes.

2086. Or bearer securities, which would, of course, be deposited with the Bank of England?—Yes.

2087. As far as I can gather, there is no statutory provision which renders that necessary, though it is a practice which the India Office has pursued ever since they took over the management of these affairs?—That is so.

2088. Do you think there is any advantage in that distinction?—In the case of registered stocks I think there might be difficulties if it were not so. For example, take a stock that has gone into the name of the Secretary of State; the chief cashier's office at the Bank of England do not accept what is called a stock receipt as evidence until they have seen the transfer book, which is brought from the transfer office and exhibited at the chief cashier's office to show that the stock has actually been transferred into the name of the Secretary of State. If stocks were transferable at other banks, the book could not, of course, be brought from that transfer office and exhibited at the chief cashier's office to show that the stock had been registered in the name of the Secretary of State.

2089. You do not think it would be sufficient to take a letter from the Joint Stock Bank to the Bank of England stating that that had been done? You were suggesting that the Joint Stock Bank would have to carry its transfer book to the Bank of England. Would it have to carry its register to the Bank of England?—That is the practice at the Bank of England, and this would be a matter for the Bank of England to decide.

2090. Is it necessary?—They do not accept the ordinary stock receipt as evidence without seeing the transfer book. There would be that difficulty. Then there is a difficulty to my mind of the stock being transferred out of the Secretary of State's name. The cashiers of the Bank of England are now attorney to the Secretary of State; I have not asked the question, and I do not know whether they would go about the city to different banks making these transfers out of the Secretary of State's name.

2091. You are limited, of course, in two ways; you are limited by the class of securities on which you lend, and you are limited also by the number of firms you have on your list?—Yes.

2092. I rather gathered that no efforts have been made to extend the number of firms?—I never go out and solicit firms to come on the borrowing list. They know the ropes, and if a new firm wants to come on they write to me a letter, which I have asked them to do, and which I forward to the India Office.

2093. Do you think it was generally known before the recent discussions that this practice prevailed?—Yes.

2094. I ask because one of our members who is in the City was not aware of it?—Did he not know that the *modus operandi* was to approach me?

2095. (*Mr. Gladstone.*) I did not know how the list was arrived at, or who was on it, or anything about it?—Anyone who wishes to go on the list comes and sees me; I ask him to put it in writing, and I forward the letter to the India Office.

2096. (*Chairman.*) Have you in consequence of the publicity given by the discussion in Parliament had any withdrawals?—One.

2097. Have any fresh names been proposed to you?—No, I do not think so.

2098. I think I must tell you that incidentally we have had under our consideration the remuneration you receive as broker. I put it to Mr. Badock, and perhaps I ought to put the same question to you: I asked him whether he was aware that certain other Government departments paid their broker by a fixed sum, or a commission with a fixed maximum. Perhaps you are aware of that?—I do not know how they pay. I do not think they pay by a fixed sum.

2099. I ought to make it clear. The cases I am referring to are for sales and purchases of securities and not for lending money?—That is so in those cases.

2100. I understand the arrangement with you as regards the sale and purchase of securities is of a very similar character, and that there is a limit to the amount of the commission in your case?—I believe—I do not think I am disclosing anything—they get a fixed sum whether they do any work or whether they do not. I should not like to be certain about it.

2101. In your case you get a commission at a certain rate up to a maximum of 1,500*l.*?—That is so.

2102. But in regard to the loans you are paid on the interest earned?—That is so.

2103. Owing to the growth of the business your remuneration received in that way has very much increased?—Yes.

2104. And has reached very high figures in some years?—Yes, but the work has increased.

2105. I do not ask you to say anything about this unless you wish, but I think it only fair to you to say that I suggested to Mr. Badock in the course of his evidence that the arrangement needed revision?—In 1911; or do you mean now?

2106. I thought the average of recent years had been very high?—I might also add that the work has been very great and the responsibility very great. The work has grown enormously.

2107. I asked Mr. Badock if it had ever been considered here whether an arrangement might not be made that the broker should work on salary, and whether that might not be an economical arrangement for the India Office?—It depends upon the salary fixed.

2108. (*Lord Faber.*) I understood from you that you think it helps India to lend on railway debentures, taking those railway debentures at par?—Yes.

2109. Did you also say there were some Indian debentures running as far on as 1930?—Those are Exchequer bonds.

2110. What is an Exchequer bond due in 1930 worth to-day?—I think about 96.

2111. And you lend 100 on that?—No, I would not lend 100 on that; they have to give me about 104,000*l.* for 100,000*l.*

2112. I suppose that the cashiers of the Bank of England do for the India Office, and very rightly do, things with regard to the transfer of stocks that they would not do for anyone else?—I am afraid I am not in a position to answer that. I do not know whether they are attorney to other people, so I could not say.

2113. I should have thought that as regards these other big banks who have so many stocks inscribed in their books now, it might be that they would make an arrangement to help the Secretary of State to get over that difficulty, of which you justly speak, of his getting in and out of stocks, because that would open certain good stocks which at present are not open?—It might. What stocks have you in mind?

2114. I have not any particular stock in mind, but there are many that we bankers see?—Quite so. If you are touching upon Colonial stocks I think you should

have all or none, because otherwise there might be jealously between one colony and another.

2115. (*Sir Robert Chalmers.*) When you send forward an application in writing for a new firm to come on to the list of approved borrowers, may I take it that you add to their application a recommendation with information as to your own inquiries concerning the standing of that firm?—I give such information as I can obtain, such as who the persons are, who their bankers are, and, in confidence, they tell me what their capital is.

2116. As a rule, it would not be merely the sending on of an application, but there would be a recommendation on your part?—They may ask me whether I know anything why these people should not be put on, but I do not recommend.

2117. You do not conjoin with the application a recommendation unless you are asked?—I may say, " I think that they might well be added to the list."

2118. The minimum amount that can be lent by you under the India Office regulations which govern you, is 50,000*l.*—Yes.

2119. If anyone wants more he has to take another 50,000*l.*?—That is so; it runs in multiples of 50,000*l.*

2120. Let us assume for the purpose of the question that the minimum of the first 50,000*l.* is right; is it necessary to have multiples of 50,000*l.* thereafter?—Having regard to the length of time, four weeks or five weeks, as the case may be, that we lend for, and having regard also to the fact that the firms are of high standing, I do not think there is any advantage in lending 75,000*l.* Is that what you mean?

2121. That is my exact point. Might it not be the case that a firm wanted 75,000*l.* and not 100,000*l.*?—It is very seldom that the point has ever been put to me.

2122. Do you think there is nothing in it?—I do not really. It might be the case.

2123. Your answer, I gather, had reference to the point of view of the borrower?—Yes.

2124. From the point of view of the lender, the India Office, might it not just happen that they had 25,000*l.* here and 25,000*l.* there, and it might be convenient to them to divide it in that way after the first 50,000*l.*?—It might be; I do not say that sometimes it would not.

2125. It never obtruded itself upon you from either the borrower or the lender?—No. They generally speak of 50's and 100's.

2126. Does this business take up your whole time?—Entirely. I am there every day and all day, except Saturdays and Stock Exchange holidays.

2127. As it takes up your whole time, your relation to the firm is not helpful in the business of the firm outside this particular business?—I scarcely have any other time whatever; the whole day is practically taken up with it.

2128. And you cannot find time for any other work which the prestige that the Chairman referred to might bring?—I sometimes see a few clients in the office, and identify people at the bank, and write a few letters, but practically my time is entirely devoted to India.

2129. Was that always so with you since, I think you said, 1904?—No, not always, but the work has enormously increased.

2130. In which years—in the last three or four—take 1906?—I should think from about 1907 or 1906.

2131. In 1905 you had a certain amount of leisure?—There were loans due every day as far as I can remember.

2132. There must always be work, but there was not perhaps absorbing work; was that the position?—The work was lighter, we will put it, perhaps in those years than in the last four or five.

2133. Do you advise as to the rates of issue of new loans?—As to the price of issue.

2134. Have you to do with the issue of loans?—Yes, I attend at all meetings of the Bank of England with others when the price is discussed.

2135. Your work is not then exclusively restricted to the lending out of surplus balances?—No. The new issue of stock would only occur once in a year.

2136. But you do come in for that?—Yes.

2137. With this pressure of work which you indicate, can you keep fully in touch with the market?—Fully.

2138. Your work of itself is sufficient?—That is how I gauge my rate, by keeping in touch with the market.

2139. For Indian purposes you do not keep in touch by non-India office work but by the actual work that you do for the India Office?—That is so.

2140. (*Mr. Gladstone.*) Touching the question of your remuneration, do you care to give the Commission any information as to the estimated cost of your office and your establishment there in connection with the loan business? That has been referred to already, and you might like to say something?—I should say it was 1,700*l.* or 1,800*l.* a year—something between that. I could not say for certain.

2141. Do you know the charge made by the Bank of England to private customers for lending money against Stock Exchange securities?—I do not think I do for certain, but it is generally believed that the charge is ½ per cent. per annum, being ¼ per cent. for the bank and ¼ per cent. for the brokers.

2142. Touching the list of securities, is not the system that has prevailed at the Bank of England about transfers generally considered antiquated and inconvenient by the general public?—Are you referring to the ordinary public—everybody?

2143. Yes?—I do not know, but I do not think so. I think it is an exceedingly convenient way of making a transfer. They have recently brought in transfer by deed of Consols.

2144. (*Mr. Keynes.*) You have explained to us the practice on which the chief cashier at the Bank of England insists in order to satisfy himself that the transfer of stocks is in order; in your opinion is this elaborate practice of his a wise and necessary precaution?—I should have thought the evidence of a stock receipt was quite sufficient if signed by the transferor and also witnessed by one of their own bank clerks.

2145. If he did not insist on this elaborate procedure, then there would be no particular objection to placing on your list securities inscribed at other banks?—I do not know. As far as that goes, there is the objection when the stock is transferred out of the Secretary of State's name.

2146. Do you think these other banks could not easily give evidence which would satisfy any reasonable person of the fact of the transfer?—I think it would raise difficulties.

2147. If these technical difficulties could be overcome, would it assist you in obtaining a good rate of interest to have your field enlarged by being able to accept additional securities?—I do not say that the rate would be improved, but I should certainly be able to employ some of the cash balances by the addition, we will say, of some colonial inscribed stocks.

2148. Would it facilitate your business if, apart from technical difficulties, you were allowed to lend on such security?—I think it would a little.

2149. I understood from Mr. Badock that you do not receive authority from the India Office to lend for longer periods than six weeks?—No, it is four or five.

2150. It is not often as long as six?—That is so.

2151. And it is more often four or five?—That is so.

2152. If they authorised you to lend for somewhat longer periods, would that appreciably affect the rate of interest you could earn?—It depends upon the period covered.

2153. If in the course of a year there were occasions on which you could lend for a longer period, you could earn more, could you not?—I do not think so. It entirely depends upon the months that are covered. I think, on the average, this system is as good as any.

2154. Do you mean that a person who is prepared to lend up to 10 weeks cannot get more over a number of years than a person who is only prepared to lend up to four or five weeks?—It would be very difficult to say. At the present moment, for example, over the 30th June, the end of the half-year, money is very

much wanted and I can get 4 per cent., and I am getting it for the first few days in July, although money for a week is 3½ and discount for three months is about 4⅜ or 4 7/16. But then when my loan falls due, perhaps on the 7th or 8th July, it is a speculation as to what money is going to be for the next month.

2155. I can understand that sometimes it pays you to lend for short periods and sometimes for long periods, but I should have thought that, if you had the power to lend either for short or for long periods according to which was the more profitable, that you would earn more than if you were tied down to one period?—I would have two options, do you mean, and instead of being tied down to four or five weeks I might have nine weeks or I might have 10 weeks?

2156. Yes?—I am afraid I have never looked at it in that light at all, or thought about it.

2157. You have not any opinion on the matter that you are prepared to give at the present moment?—That is so. It is quite a speculation as to what money is going to be in 10 weeks.

2158. I understand that you make all loans on a given day at the same rate to all borrowers?—That is so.

2159. At whatever time of the day you arrange it?—I get through, if I can, by perhaps 1 o'clock.

2160. What is your method? I do not know if you go to visit the borrowers?—I do go to borrowers.

2161. When you go to the first borrower you will not have the information in your possession as to the rate at which you will be able to lend all that you can lend that day, will you?—I have found out all I can before I go to the first one.

2162. When do you go to the first borrower?—About half-past 10.

2163. By then you have settled the rate at which you are going to lend all the money that day?—Yes; I have made up in my own mind what is the right rate to ask and to accept for that month by ascertaining what daily money is, what weekly money is, what the bill rate is for about the period of my loan, whether the banks are buying bills like that, and so on.

2164. Having a figure in your mind you go round to certain approved borrowers, who might find that they could take a certain amount at that rate?—Yes.

2165. But by the end of the day you might find that you had slightly over-estimated the rate and you could not place all you had at that rate?—That has occurred, but it has only occurred quite recently. I have never, in my nine years, had anything over until the last few months.

2166. (*Sir Robert Chalmers.*) That would be, however, because you were asking a good bargain for your principals?—That is so.

2167. (*Mr. Keynes.*) If you very seldom err in the direction of asking too much, would that not suggest that you must often err in the direction of asking too little?—No. I have found on some very few occasions that I have gone to a man and by great pressure I have got a certain rate from him, then I go all round the market and I find that I cannot get that particular rate anywhere else. So I have found that I squeezed him or pressed him too hard, and I go back to him and say, look here, I find the real rate is so-and-so, and I have put you down at so-and-so.

2168. That was the point I wished to reach. If you ask a higher rate at the beginning of the day than you can get later, so that some of your loans must be contracted at a lower rate, then you make them all uniform and go back to those at the higher rate and give them the lower rate?—Say I have got seven or eight people to go to, and I have done four of them at a certain rate, then I will make those other four give me my rate or else I offer my money elsewhere until I get that rate.

2169. Can you always get that rate in the end?—I have got it, with one or two exceptions.

2170. May I ask this for information: Is it the practice of other big lenders in the market to do all their business on a given day at the same rate?—I cannot answer for other people, but I should say so.

2171. (*Sir Robert Chalmers.*) Always assuming that there was no catastrophe that had happened in the afternoon?—Quite so.

(*Lord Faber.*) As regards that, our practice as a large country bank when we have money to lend is this: We send telegrams to three or four of the large discount houses in the morning to ask what they would lend bills at; there is generally a difference between them, but as a rule perhaps three of them are all the same and the fourth would be different, not necessarily the same one always, but one of them would differ.

(*Witness.*) If I find I have got my rate from four people and I have got three other people left, I squeeze them up, and if they do not come in to the rate I take the money away and offer it elsewhere.

2172. (*Mr. Gladstone.*) You could give instances of that, could you not? There was a case, I think, of a loan that you made with the National Discount Company; they would not give you your rate of 4½ and you called the money in?—I constantly do that.

2173. I happened to go to see them that day, and I gave them the money and they found they had made a mistake?—They did.

2174. I should think you could verify the date; the rate there was 4½ or 4¾?—I am constantly, very constantly indeed, employed in that way. It takes up a great deal of my time. When a firm, or firms, will not give me my rate, I have got to relend that money at the rate I want, and that takes up the majority of my time. The work may look a little on paper, but I assure you that a very great deal of my work is not seen on paper. I may have to go to eight or ten or a dozen, or perhaps even twenty firms, in order to lend my money, or to renew it, when I am paid off by somebody who will not give the rate.

2175. (*Mr. Keynes.*) There is one question I should like to ask you with regard to your remuneration: At present, as I understand, your remuneration is proportioned to the interest earned?—That is so.

2176. So that in years of dear money it is a good deal higher than in years of cheap money?—Yes.

2177. And does not entirely depend upon the volume of business passing?—That is so.

2178. Would you think an arrangement, by which you were paid according to the volume of business you did, rather than according to the rate of interest earned, to be a fair one?—How would you gauge what was the work done? As I have just explained, a tremendous lot of work is invisible.

2179. I should gauge the work done by the amount of loans which you put through, apart from the rate?—The interest, after all, whether it is 4 or 4¼, what does it amount to?

2180. I am putting simply this point: When a suggestion of a fixed salary was put, you quite rightly suggested that it made no allowance for wide fluctuations in the amount of trouble; the present system takes account of the trouble, but it also takes account of something which is not concerned with you at all, namely, the rate of money, so that your income fluctuates through something which is not in the least under your control, and which does not affect the amount of trouble that you have. Is that system satisfactory to you?—It is more difficult to lend money in easy times than it is when money is wanted; although the remuneration would be smaller the work would be harder.

2181. In that case you get less remuneration when the work is hard?—It is very difficult to lend when nobody wants to borrow, and the remuneration is smaller.

2182. Is that system satisfactory?—It is rather. The system has been turned round several times. I believe in my father's time—he was also the India Office broker—I do not know what it was in my grandfather's time, in 1842—he had a scale, and if the rate was under 1½ per cent. he got 1/16 per cent., over 1½ per cent. and under 3 per cent. he got ⅛ per cent., and over 3 per cent. he got 3/16 per cent. In 1888 the scale was altered to make it a round 5 per cent. on the interest. That worked out almost the same. That

continued till 1911, when it was altered to its present form—not on my suggestion.

2183. (*Chairman.*) And not to your advantage?—Not to my advantage, nothing like it.

2184. The alteration was a reduction?—It was very much reduced; it is equal to a 60 per cent. reduction, if you look at it; I mean the work for 10 millions of loans out is the same as it would be for four millions.

2185. (*Lord Faber.*) The largeness of the loans just lately has saved you, has it not?—Yes. If my present scale went back to the years when my predecessor held the appointment, say 14 years ago, when he earned 3,300*l.* a year, on my scale it would be 1,600*l.*; when you work off the expenses there is not much left for the broker.

2186. (*Sir Shapurji Broacha.*) Are you always able to lend at one rate?—I always settle upon one rate.

2187. Suppose you have two millions to lend and you have given one million at 3 per cent., and there are no takers at 3 per cent. that day for the other million, and that you cannot lend it except at $2\frac{7}{8}$ or $2\frac{3}{4}$, what will you do? Will you go to the first men and reduce the rate to them to $2\frac{7}{8}$ in order to equalise?—I do not think that question has ever arisen that I have got such a huge sum of money to lend on one day. I have never had such a case as that.

2188. In business discounting, in the morning you discount at $3\frac{1}{2}$ and in the evening you may discount at $3\frac{1}{4}$?—That is just possible.

2189. The rates are always fluctuating; and you say, in order to equalise them, you go back to those you lent at a higher rate and reduce the rate to them?—I should not wait till the afternoon to do my work; that would be, in my opinion, speculating with my order. I have got to do my work and not look to other men.

2190. When a broker goes to a firm it takes him about an hour, or it may take only half an hour, but in the meantime the rates have gone back, and the other borrowers may say, "The market "is lower to-day, owing to some circumstances, "political or otherwise, and so you have a difficulty in "getting the same rate." I suppose, according to what you say, you will then go back to the first borrowers and reduce the rate to them?—That is only if I find one solitary exception, or possibly two, out of perhaps eight or ten houses with whom I have got money. If I find that I can get the rate from the majority of people, then I hold out until I do get it. I should never go back except in one solitary case or possibly two cases.

2191. I lend money, and I know that I take different rates not only in the same day but in the same hour?—I think it is to the interest of India to stick to one rate.

2192. I know what a farce it is to go to 10 or 20 people, because by the time you have got to the twentieth the rates have declined; of course they may have appreciated also. Then in case they have appreciated, would you go back to the first borrowers and say they must give you the appreciated rate?—No. I think if the rate was on the verge of appreciating I should have no difficulty in lending, and I should not have to go to so many people. It very rarely occurs that I have to go back to one or possibly two when I have got 10 or 12 on my list and say, I find that the rate is so-and-so. Of course, if I did not go back to him, A would very soon find out what rate I have accepted from B, and then he would say, "You did not treat me fairly."

2193. If I go to the National Bank and discount bills at $2\frac{3}{4}$ per cent. and then I cannot get more than $2\frac{5}{8}$, would the broker who was already notified of the transaction at the first bank reduce it because the other loans could not be done at the same rate?—I have only reduced it where I have got the higher rate under great pressure, and the man has given it, perhaps not knowing what the rate has been.

2194. (*Sir Robert Chalmers.*) You are dealing with a limited number of permanent customers?—Yes.

2195. To that extent, do you understand your position to be somewhat different to that indicated by Sir Shapurji in his recent questions?—I am confined to a certain circle.

2196. And it is your interest not to snatch an exceptional profit from one of them to-day?—Quite so. If A finds out that I have charged B $3\frac{1}{2}$ when I have charged him $3\frac{3}{4}$, he might accuse me, and I think rightly so, of favouritism, and I do not think that would be in the interests of the India Office.

2197. You are dealing in a world market as regards lending?—Yes.

2198. Which would not necessarily apply to every market, perhaps those that Sir Shapurji had in mind?—That is so.

2199. (*Sir Shapurji Broacha.*) You have got 62 names on your list, but they are not all of the same status, are they; for instance, you would not consider a broker's firm to be of the same standing as the National Bank?—The small man's security is as good as the big man's.

2200. (*Chairman.*) The difference would be in the amount you lend?—Quite so.

2201. Did you have anything to do with the deposits that were made to the banks?—I negotiated them with the various banks.

2202. Did you select the banks?—No.

2203. But you negotiated the terms with them?—I negotiated with these different banks and then reported to the Chairman what I could obtain, and I received my orders.

2204. Was a list of the banks given to you to which you should go?—That is so.

2205. Or were you authorised to go to any bank that you thought of sufficient standing?—No. The banks were selected, and I was instructed what banks to go to.

2206. (*Mr. Keynes.*) Was it left to you how much you would lend to each bank, or only the terms on which you should lend it?—Only the terms.

2207. The amounts were not left to you?—No.

2208. (*Mr. Gladstone.*) Do I understand that in those cases a particular bank was selected, or did you go round the approved banks in the same way as you did with the approved borrowers?—I went to the approved banks

2209. The name of a particular bank was not given to you and then you were told to get the best rate you could from them?—No. I would go first to a particular bank and report the rate that I could obtain from them.

2210. (*Lord Faber.*) You only went to the banks that you had instructions to go to from the India Office?—That is so.

2211. You did not choose the banks, but you went to the banks that were named to you?—Yes.

2212. (*Sir Robert Chalmers.*) You had an approved list of banks, as you had an approved list of ordinary borrowers, given to you?—Yes.

2213. (*Mr. Gladstone.*) And you were not asked to go to one particular bank?—Only to ascertain the best rate.

2214. (*Chairman.*) It is possible that your answer to an earlier question may be open to misconception. You were not instructed to go to one particular bank, but you were given a list of banks; is that so?—First, I had an order for a deposit—will you offer it to so-and-so, and if the rate is not agreeable then will you offer it to so-and-so and so-and-so? I think that was the procedure.

2215. There was a list of banks approved, as I understand, for this purpose?—Yes.

2216. Assume that there was a deposit to be made, you were informed of the amount of that deposit?—Yes.

2217. How was the rate of interest settled that was to be obtained on it?—I negotiated with these different banks, and I found out from them what was the best possible rate they would give, and reported it.

2218. Therefore, if you were told, for instance, that the Secretary of State wished to place 200,000*l.* on deposit, you would have gone to all the banks on your approved list and inquired of them what rate they would give you for it?—I went and saw the Chairman of the Finance Committee and discussed the thing with him, and he would instruct me as to the banks and the rate that I might accept.

2219. He instructed you to go to a particular bank?—Yes, to ascertain the rate.

2220. And offer it to that particular bank?—Quite so.

2221. At a particular rate?—First of all, to ascertain what that particular bank would give.

2222. And if the rate was satisfactory, then the deposit was offered to that particular bank?—Yes.

2223. (*Lord Faber.*) That bank being one out of the list?—One out of seven.

2224. (*Chairman.*) The routine was not that you should necessarily inquire of at least three or four banks on the list, what their rates were when you had a particular sum to lend?—I always found out what the discount rate was.

2225. (*Lord Faber.*) Supposing you had 10,000*l.* to lend by order of your superior officer, did you then go to the whole seven selected banks and try what each of them would give you?—Not always.

2226. How would you decide which out of the seven to go to?—I did not always try each one of the seven.

2227. How did you make up your mind that 1, 2, 3, 4, 5, and 6 would not give you a worse rate than 7, to whom you did not go?—I would not go to the whole of the seven. Perhaps three or four banks on one particular day might say: "I cannot give you more than such and such a rate."

2228. (*Chairman.*) Did you ever make a deposit with one bank without having inquired of the other banks what they would give?—I may have, when it first originated.

2229. If you did so, were you acting on your own discretion or acting on instructions?—I had my instructions as to what rate I might accept.

2230. Did your instructions also say, within the limit of the list, of which bank you were to accept that rate?—I would have instructions that if I could not get the rate from A I should offer it to B; then I would go back, and so forth. If I could not get it from B I would go to C.

2231. (*Lord Faber.*) In fact, you did not get the best rate, to your knowledge, out of the whole seven banks; you had instructions to get, we will say, 3 per cent. from one bank, and you went to that bank and took 3 per cent.?—I always obtained the best rate that could be got.

2232. Without knowing whether the other six banks would give you more than 3 per cent.?—I did not go to all seven on one day, but very often the deposit was split amongst four or five banks; and that was a check upon the rate.

2233. You did not put them in competition with one another on that particular job, if I may put it in that way?—I always checked the rate before fixing it up.

2234. (*Mr. Gladstone.*) In this case, two of the members of the Finance Committee were bankers?—Yes.

2235. And the Chairman of the Finance Committee, under whose general authority you acted, I suppose with the Accountant-General, is also a banker?—Yes.

2236. What the Commission desire to know is whether when these amounts of money were put on deposit the best rate was obtained, and whether you were confined or ordered to give the deposits to a particular bank, or were bound in each case to ascertain, and did ascertain, the best rate from all the banks on the approved list. You might not have gone to them every day, but the rates would be known?—Quite so.

2237. You did not place those deposits with particular banks in accordance with the orders of the Chairman of the Finance Committee, although as Chairman of the Finance Committee of course he had the responsibility of instructing you to make the deposits?—Yes.

2238. (*Chairman.*) Did he leave you full discretion to make the deposit with any bank on the list, or did he indicate to you that you were to go to a particular bank on the list and offer that particular deposit?—I had to go to a particular bank and find out what that particular bank would give; I would go back again and report, and if it was not accepted I would have to offer it to somebody else and see what they would do.

2239. Did the Chairman settle with you what you both thought was a fair rate?—Yes.

2240. The best rate you could obtain?—Yes.

2241. Did he then instruct you to offer the deposit to bank A at that rate, without inquiry as to whether bank B or bank C or bank D would pay you a better rate?—As a rule there were three or four banks due for renewal of the deposit on a particular day, or if there were fresh deposits, say of half a million, it would be divided up, perhaps 200,000*l.* here, 100,000*l.* there, and 200,000*l.* there, and would be offered in that way. By that means one got to know what was the best rate, and whatever the best rate was that bank had it and the other bank did not have it. So I screwed them up to the best rate available.

2242. In each case you formed your own judgment about what the rate should be, and if you secured the rate which you had decided to ask, you gave the deposit at once; is that it?—I found out by competition, putting one against another, what was the best rate obtainable, and then got my instructions from my superior.

2243. You had in a particular case, we will say, three deposits falling due from banks A, B, and C?—Yes.

2244. Did you go to those banks and say, "What rate will you give me for a renewal of the deposit?"—Yes.

2245. If you had fresh money, you were instructed to go to another bank?—Yes.

2246. And ask them what rate they would give?—Yes.

2247. If one of the banks offered you less than you obtained from the others, what happened?—I withdrew the deposit and offered it somewhere else.

2248. And you got the higher rate elsewhere?—Yes.

2249. That is not clear from your early evidence, I think?—I thought Lord Faber asked did I go to all seven banks?

2250. (*Lord Faber.*) Yes, so I ask still?—I cannot say I went to all seven, but I might go to the majority of them.*

2251. (*Chairman.*) You went, in your opinion, to a sufficient number really to test what was the best rate that you could get?—The deposits were very often paid off by one because they would not give the rate I was asking, and then the money was redeposited with somebody else.

2252. In no case, therefore—I think I had better put the question quite bluntly to you—did the Chairman of the Finance Committee, who had to arrange these matters with you, and who was himself a banker, commit you to deal at a particular rate with his bank, unless you had tested that rate by making application to other banks?—I always tested the rate if I had a deposit with that particular bank.

2253. (*Mr. Keynes.*) Did you receive instructions from the Chairman of the Finance Committee as to which bank should have the first offer at the current rate of the day?—I had instructions as to what banks to go to, and I went, perhaps, to the one which was first on the list.

2254. I understand that if a bank did not give you a satisfactory rate you went elsewhere?—Yes.

2255. But in selecting the bank you first went to and gave the first offer to, did you act on the instruc-

* 1. In further reference to Lord Faber's question as to why I did not always go to all the seven banks, I should like to explain that it was the policy to keep the amounts of the deposits with the banks as even as possible, so that if through deposits being called in three or four of the banks had less than the others, I would naturally go first to these banks and not necessarily to all the others provided the best rate was obtained from them.

2. When I had a deposit to make I saw the Chairman of the Finance Committee, and after discussion he stated that, if his bank was going to take any of it, the best rate he could give was *x*, but if I could do better elsewhere I was to do so; which of course I always attempted to do.

The same remark applies to renewals of deposits.

Horace H. Scott.

tions of the Chairman?—My instructions from the Chairman were as to what rate I might accept.

2256. Did you also have instructions as to which bank you should offer the loan on those terms?—I went to that bank first and then there may have been three or four that I went to afterwards.

2257. Were those three or four named to you by him, or did you select them yourself?—The Chairman generally named them.

2258. (*Chairman.*) Do you not think it would have been better, when you had money to lend on deposit in this way, to have seen all the banks and said, "I have "so much money to lend, what is the best rate you will "give me?"—But then the deposits varied so much; sometimes there were 200,000*l.* to put on deposit, sometimes 400,000*l.*, sometimes 300,000*l.*, and I do not think it would have been advisable to tell all the banks how much money the Council had to put on deposit at one time.

2259. Is that any objection to the course that I suggested?—These were exceptional deposits, and you would not offer a bank those amounts. I think they went in amounts of about 100,000*l.* apiece.

2260. I do not mean that you would necessarily offer the whole amount to one bank, but that you would fix in your own mind the limit which you would entrust to any one particular bank at a given moment, and then, having that money to lend, you should have asked all of the banks whether they could take the amount that you were prepared to lend, or that you thought it safe to lend each one of them, and if they were prepared to take it, what rate they would give to you? Then you would have been certain that you would have got always the best rate that any of the seven banks could have given, would you not?—Yes.

2261. I do not understand that the practice, as you have explained it, gave any guarantee that one of the other banks on the list might not on any particular occasion have given you a better rate of interest if they had had the offer. Do you think there was any guarantee of that?—I only went to such banks as I was instructed, in order that the amounts might be kept as even as possible, provided that the best rate was obtained.

2262. (*Mr. Gladstone.*) I suppose your action would have been affected to some extent by the amount of the deposits which you knew were already out?—Exactly.

2263. If, for instance, two or three of the banks had half a million or a million or more already?—That would be so.

2264. You would not have gone to them, because they might have had enough money?—Quite so.

2265. That might have limited your action on a particular day?—That very often was so. Perhaps I did not explain it clearly. Perhaps one bank had got a certain amount and another bank had not got quite so much.

2266. (*Chairman.*) If in any particular bank they had got the full amount that you thought it desirable to lend to them, you might treat them as not being available for the moment?—That was so.

2267. Did you always ascertain what was the best rate you could get from any of the banks on the list to whom you were prepared to lend more money?—I think so, certainly.

2268. Therefore on each occasion you would have got a quotation from every bank except those which had already got so much money that you did not want to put more with them?—I think that was so.

2269. (*Lord Faber.*) Then you did not receive instructions from the Chairman to go to certain banks?—I always received instructions from the Chairman. There were only four banks on, up to a certain period, and after that the number was increased to seven.

2270. (*Sir Robert Chalmers.*) Which were the first four?—The National Provincial, the Westminster, the Union of London, and the City.

2271. That was in what years?—In 1909 to 1911, I think.

2272. The others came on later?—The others came on later.

2273. (*Sir Shapurji Broacha.*) I suppose your Chairman is in the position of knowing the finest rate, having so many people visiting him?—I should say so. He would know the bill rate probably better than I do.

2274. (*Mr. Gladstone.*) Might I ask whether the fact of the Chairman being a banker himself, and knowing the market so well, would not be an advantage to the India Office?—I should think so, certainly.

The witness withdrew.

At the India Office, Whitehall, S.W

SEVENTH DAY.

Friday, June 20, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir DANIEL MACKINNON HAMILTON called and examined.

2275. (*Chairman.*) I understand that you are here to-day as a representative of the Bengal Chamber of Commerce?—Yes, the Chamber have asked me to express my views, but my views do not necessarily commit them in any way.

2276. You have submitted a memorandum to us, and I propose, as we have done with the other witnesses, to print that in your evidence (*see* Appendix XVI., page 518). Does what you have just said as to the views of the Bengal Chamber, refer to the whole of your memorandum?—Yes.

2277. Would you tell the Commission very shortly what has been your experience in matters relating to Indian finance and currency?—Only the ordinary business experience of 25 years in India.

2278. We have had it in evidence that the large cash balances held in India and London of recent years were due to exceptional causes; I rather gather from

your memorandum that you would agree to that statement?—Yes.

2279. And that you do not criticise the Government for the large amounts to which these balances have risen in recent years?—No, I believe that the balances might be larger.

2280. I also gather from your memorandum that you are heartily in favour of the practice of selling Council bills and transfers in order to bring the balances to London?—Yes.

2281. And also of the practice of lending the London balances out in the City?—Provided they cannot utilise them to better advantage in India.

2282. Do you think that they might have been used to better advantage in India?—Yes.

2283. I will return to that answer later. I gather also that you think the Government has perhaps paid too much attention to capital expenditure on railways with a view to assisting the export trade, and has thought too little about the internal development of India?—There is so much money in hand that they can develop both railways and irrigation, which is so much needed for the internal trade of the country. I do not think that they need starve the irrigation work.

2284. In paragraph 10 of Appendix XVI. (page 519) you speak of the "'gamble in rain,' so christened by "Sir Guy Fleetwood Wilson." I think he used that phrase in reference to the Indian budget, was that not so?—He applied it to the Indian financial system really.

2285. What do you think he meant by it?—It means this, that the Indian Government never wants to borrow more than it can possibly help, whereas I say, by not borrowing, for every sovereign not borrowed it loses 20*s.* worth of produce to India.

2286. Does not the phrase mean that the realisation of the budget estimates depends upon the rain?—Yes.

2287. That if there is a particularly good season there will be a surplus?—Yes.

2288. And if there is a particularly bad one there will be a deficit?—Yes; but the deficit can be made up by borrowing.

2289. I want, first of all, to get at the exact meaning of the expression "gamble in rain"?—Government make such a fetish of what they call the avoidance of debt.

2290. In fact, I suppose, in preparing their financial statement Government budget in the expectation of a normal year, having to make their estimates at a time when the climatic conditions on which the character of the year depends cannot be foreseen?—What the Government look to is, Square your own accounts; that is all they look to, and they do not consider that they are losing the produce.

2291. Is this your criticism—that they pay too much attention to balancing revenue and expenditure, and that they should be comparatively regardless of the amount of their revenue, but budget for large expenditure, relying on borrowing if the revenue fails?—What it amounts to is this, they lose a sovereign's worth of produce for every sovereign they do not borrow.

2292. Is it your criticism that they ought to carry out a steady programme of development works irrespective of budget receipts?—Yes; irrespective of the rainfall, budget receipts, and anything else.

2293. But you do not suggest that they can eliminate the consideration of the rainfall from their estimates of revenue, do you?—That is my contention.

2294. You think they can?—Yes.

2295. I was using the word "revenue" as meaning the produce of their taxes?—I will explain what I mean, if I may, by means of this diagram,* which is illustrated with photographs, and show you how they may do it. These are photographs of a property of mine in Bengal. The surplus crop of the year is represented by this heap of rice; that has to find its way to Europe, and those are the bags going to Europe. On the rice reaching Europe, it is turned into gold coin, the gold coin passes in turn through the council chamber into the Treasury balances; the latter are already chock full, so it passes on, and it eventually creates a water tank for an irrigation canal. That is what happens when Government gets the gold. When Government does not get the sovereigns by means of the council chamber, the gold escapes the Government comes round this other way, and lands for circulation in India, or goes into the hoards of the people—it does not matter which; it becomes dead there, as you can see. When a bad year comes round, the export trade is wiped out, and there is no gold flowing towards Europe at all. To keep this irrigation work going the Government comes into the market and borrows European capital, which flows from the Treasury and so keeps the irrigation canals going. In that way the irrigation canals and the railway programme are going on all the time, whether the rainfall is good or bad. In the following year the export trade begins again, but instead of the sovereigns then flowing into the Government chest, they flow towards Europe and repay the European capitalist; he is paid off. By one of these two means the irrigation canal or the railway is kept going all the time, and therefore you can keep your programme going, whether there is a rainfall or not.

2296. (*Sir Ernest Cable.*) You mean that you would make up a deficit by borrowing?—Yes, and the borrowing is paid for by the next good year. In that way India gets the canals for nothing.

2297. (*Chairman.*) I think I understand your meaning to be that the development programme of India ought to be secured by borrowing freely whenever necessity arises, and ought not to be in any way checked by a deficiency of revenue in a particular year?—Exactly; and your borrowing can be paid off next year from your surplus.

2298. What therefore you mean by that gamble in rain is that at present if the rains are good the revenues increase and there is a surplus?—Yes.

2299. And also there is a considerable development of work?—Yes.

2300. But if the rains fail then there there is no surplus, there may even be a deficit, and the work stops?—Yes, and India suffers from restricted development. All that can be avoided by this system which I have explained.

2301. Now will you explain to me this sentence in that same paragraph 10 of Appendix XVI.: "Some "years ago Government, with a strong hand, suppressed "rain gambling in Calcutta"?—Sir Ernest Cable knows what I mean,

2302. But I do not, so perhaps you will explain it to me?—Certainly. In the hot weather we get showers perhaps every three or four weeks, and as the rains approach, the probability is that those showers will become more frequent. There was a gamble whether the rain would fall on a particular day or not. There was a little tank with a spout fixed up on the top of a house in the Burra Bazaar of Calcutta, which is the big native market place, and if the rain fell sufficiently for this spout to run, it was considered to have rained, and the man lost or won his bet accordingly. This gambling became such an evil in Calcutta that the Government stepped in and killed it.

2303. That was pure betting as to whether it would rain on a particular day or not?—Exactly.

2304. Do you think that that has any parallel to the financial procedure of the Government?—I am using Sir Guy Fleetwood Wilson's own phrase; he calls it a gamble in rain, and I want to kill that.

2305. In order to kill it it seems to me that you gave it a bad name and thought that would hang it?—I hope it will.

2306. With regard to the Paper Currency Reserve, is it your view that the invested portion of the reserve is very small in proportion to the total circulation, and that the amount in gold is too large?—The amount of gold is far too large. Supposing they keep in hand a sufficient supply of silver to pay off to-morrow every 10-rupee note out at present, they would still have 12 millions sterling in their pockets lying idle, which could be freed to-morrow for development purposes,

* Not printed.

and yet still, as I say, leave enough silver for every 10-rupee note that is out.

2307. In making that calculation I understand you hold that the gold should not be taken at its gold value as at present, but at its rupee value?—Yes, because the Indian people cannot claim gold. Silver is the legal tender of the country, and all they can claim is silver; and therefore all that gold is simply lying dead and useless.

2308. You would treat that gold as the equivalent of the number of rupees which could be coined with the silver which it could purchase?—Exactly. With that 12 millions of gold you can coin about 20 crores of rupees.

2309. I gather you hold the view that with the gold so set free you should proceed with the development of railways or with other capital expenditure?—Yes, and for this reason: If you spend those 12 millions sterling in locomotives or railway wagons or anything else you like in England here, in that case you return that gold to Europe, you immediately relieve the money markets of the world, and in addition to that you increase employment in Europe here. If you order 12 millions' worth of rolling-stock you can see what a tremendous boom in trade that would create.

2310. You said the first effect would be to relieve the money markets of the world?—Yes; it will place 12 million sovereigns in the Bank of England to begin with.

2311. I take it, therefore, you would regard the condition of the London money market as of the first importance to India?—It is immaterial whether it is in England or in India, so long as the Empire has got the gold. The Empire still keeps this gold and does not part with it; the gold comes to England and remains in the Bank of England. At the same time you create employment by ordering 12 millions' worth of railway material in England. You can see what a tremendous relief that would be to unemployment.

2312. I want to get your view exactly, if I can: One of the criticisms directed against the Secretary of State has been that he has thought too much of the London market; I gather from what you have said to me just now that you think the condition of the London money market is of great importance to India, and that anything which relieves stringency here directly serves Indian interests; am I right?—Yes, that is so, in this way—that the money set free develops India. It helps both; it helps India and it helps you.

2313. I think you hold that the Government of India ought to encourage the use of a paper currency by the people of India as far as possible?—Yes, it ought to encourage the use of a paper currency; but then it is not purely a paper currency; you have got the silver reserve against it, and so it is backed up by silver to the extent required.

2314. For metal currency purposes?—It is practically a silver currency, because the paper is backed by the silver.

2315. But for actual use in circulation, would you encourage the use of a paper currency?—Whatever the people want, let them have it. If they want paper, give them paper; they can cash that into silver whenever they want to do so.

2316. Does that apply equally to gold? If they want gold would you say, give them gold?—No; do not give them gold. For every sovereign of gold you give to the people, India loses a sovereign's worth of produce, and you get nothing in exchange.

2317. That is the key to your memorandum?—Exactly.

2318. In your opinion, gold in India lies idle, whether in currency or in hoards?—In any case India loses one sovereign's worth of produce, and that is not the end of it. If you invest that sovereign in irrigation works, say, at an ordinary 5 per cent. return—as a matter of fact, irrigation works give a 10 per cent. return, and railways give 4 per cent. or 5 per cent.—but taking an average of 5 per cent., that means that that sovereign in 14 years has doubled and become two sovereigns, because money doubles in 14 years at 5 per cent. But that is the smallest part of the loss. If that sovereign is sunk in irrigation works, it creates 100 per cent. for India in food—I have got the Government figures here to show that every £ spent on irrigation creates a £'s worth of food. So in the 14 years you gain 14 sovereigns in food, plus the 2*l.* in the way of capital; therefore, for every sovereign lost to India, that is, which has been put into circulation or put into hoards, India loses 16 golden sovereigns. That seems a bold statement to make.

2319. If I understand you rightly, what you say comes to this, that if India takes payment in gold she takes payment in something which is only of use for the purpose of exchange?—Exactly so.

2320. Which, if not so used, is wasted?—That is so.

2321. But if India takes payment in goods, in railways, or in irrigation works, it then gets an actively productive force?—That is my meaning exactly.

2322. It not only gets the value of the gold which it might have had——?—But it gets 16 sovereigns over and above in 14 years.

2323. Through the development which has taken place?—Exactly. In 14 years that sovereign gains 16 sovereigns, so for every sovereign India loses she loses 16*l.* of produce.

2324. Lord Faber suggests that the payment of labour has got to come out of those sovereigns?—That does not matter. The people are fed all these years.

2325. (*Lord Faber.*) By the Government?—Perhaps you have read Ruskin's "Unto This Last." He makes the statement there that the whole of wealth is life. That is an economic fact. Credit is no use until you turn it into cash; cash is no use until you turn it into food; and food is no use until you turn it into flesh and blood.

2326. (*Chairman.*) The general effect of this evidence is that in your opinion it is of the highest importance that the Government should use all the funds it can for the purposes of development?—Just so. But it does not require to use all that it has got, or anything like it. It has got 60 millions of gold in its pocket now, and does not require to use a fourth of that.

2327. I think you admit, however, that there must be a silver reserve for the paper currency?—Exactly, and I am not touching that; it has got that in either case.

2328. And you admit also that Government must have a gold reserve for the exchange?—It must have the Gold Standard Reserve.

2329. At what figure do you think the Paper Currency Reserve ought to stand?—You need not take a single sovereign or piece of silver out of your currency reserve. You can do what I say without touching your reserves in any way under this system which I have explained to you.

2330. I understood from your memorandum that you propose to take money out of the Paper Currency Reserve?—But the Treasury fills up again in the next good year. The money flows into the Treasury then, but in the bad year the flow into the Treasury stops and you draw from the London money market. Then the good year comes along again and you repay the London money market, in that way paying off your debt. In the meantime you have got your railway for nothing.

2331. I cannot follow the process by which anybody gets a railway for nothing?—You do get it I assure you, and you get not only one but you get as many as you want. You have 12 millions in hand now, have you not?

2332. What reserve are you talking of?—The surplus currency reserve. You have got 12 millions in hand there now, have you not?

2333. (*Sir Ernest Cable.*) Do you mean in addition to what is required to cash every rupee note?—Yes; is that so or not so?

2334. (*Chairman.*) That is what we are wondering about?—Perhaps some of the official gentlemen will confirm my figure.

2335. How do you get at that figure?—That is the difference between the actual value and the paper value. In the Government accounts the sovereign is valued at

15 rupees, whereas with the sovereign you can buy 22 rupees.

2336. Then the 12 millions of which you are talking is the difference between the gold written at 15 rupees to the sovereign, and the gold written at, say, 22 rupees to the sovereign?—Exactly.

2337. (*Mr. Keynes.*) You are not proposing both to turn the gold into silver and also to invest it, are you?—Yes.

2338. You really are proposing to do both?—Yes, I am going to do both. I am getting double power.

2339. With the same gold?—With the same gold.

2340. But after you have invested the gold you no longer possess it?—I have shewn you how it comes back again. You keep your Treasury intact. I would like the gentlemen all round the table to understand this before going any farther. (*Referring to diagram.*)* These are photographs of my place at Sunderbund.

2341. Is this to explain how you bring in the reserves?—This is to explain how you never tap your reserves at all. This photograph shows actual India at work, and that shows India's surplus stock; you see it piled up in that little heap.

2342. (*Sir Ernest Cable.*) That is the profit?—Yes. Here is my Indian merchant coming round to buy it. They clean it, you see, before they take it away. There is a man there with a fan in his hand; that is how they clean it.

2343. (*Mr. Keynes.*) What is the next step?—They bag it, and I have shown here the bag going to Europe, and there the European market. Then gold comes back in payment for the produce. The gold coins pass through the Council Chamber and right through the Treasury reserves, which are chock-a-block now, and then go to create an irrigation tank, or a canal, or a railway.

2344. That is to say, these sovereigns are spent?—Yes.

2345. So now the Government has no sovereigns at all?—It has got the same stock it had before.

2346. But it has spent them?—No, they are there. This is the reserve as it stands now.

(*Sir Ernest Cable.*) But that is not the old gold.

2347. (*Mr. Keynes.*) And the new gold that has come has now been spent?—The produce is turned into gold in Europe; the reserve as it is now is chock full of gold; the sovereign therefore passes through, leaving that gold as it is, and is turned into an irrigation canal.

2348. It has passed into the irrigation canal?—The gold has.

2349. By being spent?—Yes.

2350. So the Government has so longer the gold?—It has the gold; and I want to show you how it gets it back again.

2351. By a further stage does it get it back again?—The next year is a bad year, and the export trade is stopped. In that year the Government borrows in Europe and the gold comes back from Europe. It passes through the reserve and still leaves that intact; then it comes out and keeps the irrigation works going and also your railway.

2352. (*Sir James Begbie.*) In a bad year does the Government borrow in London, or where?—They do not borrow, but I say they ought to borrow.

2353. (*Sir Ernest Cable.*) This diagram of yours illustrates the ideal, does it?—This is what might be. What actually happens when Government stands out in the market and does not borrow, is that the gold escapes them. If the Government raise the exchange to 1*s.* 4$\frac{1}{32}$*d.* the banks will not buy the gold.

2354. (*Mr. Keynes.*) They build the irrigation canal out of the money they eventually borrow in London?—Yes, and I show you how they repay it. The next year the gold comes back, escapes the Government, and, landing in India, passes into the currency, or into hoards, it does not matter which; but it does nothing that a paper note would not do.

2355. When the Government spends the gold which it has got in its reserves, that also flows into the same source, does it?—No.

2356. Where does it go then?—In labour.

2357. Into the pockets of the persons who make the tank?—Yes; it has created a tank.

2358. Just as it goes into the pockets of certain other persons in other circumstances?—Yes. When the export trade stops there is no gold going round at all, but the export trade begins again when the good year comes and the gold flow begins again with it. If the gold escapes the Government it lands in India, and in the bad year the Government draws from Europe, but not in the next good year, which fills up the European chest again, and as it pays off Europe keeps your tanks going.

2359. (*Sir Ernest Cable.*) This is new to me at the moment; I must say I cannot resist the feeling that you are using the money twice over?—And you are using it twice over; that is what I want to do.

2360. Can we all go on using money twice over?—It is this way: You have 12 millions in hand now; say you build a railway with it, and when you build your railway suppose you sell it; with the gold you get you build another railway and sell it; when you sell that railway the gold comes back, and when it does come back you build another railway and sell that; and so on indefinitely.

2361. (*Mr. Keynes.*) To whom do you sell the railway?—To anybody who wants to buy it.

2362. What do they give you in return? I can understand the process by which you build a railway with gold and then sell that railway for gold?—You get the gold, the price of the railway.

2363. Is it simply a system by which the Government builds railways and then sells them to private persons?—Yes; in that way that 12 millions will make railways indefinitely.

2364. Only so long as the private persons can be found to buy the railways?—Exactly; but if private persons do not want them India keeps them herself.

2365. In that case she can only build one?—No; she goes on indefinitely.

2366. But unless private persons buy that railway she has no money to build a second railway?—I cannot follow.

2367. (*Chairman.*) Will you look at paragraph 6 of Appendix XVI., page 518? You say there, under the head of Treasury Balances, "The Treasury balances "remaining in India should be freely lent out in India "to first-class banks?—Yes, that is so.

2368. Your opinion is that the Treasury balances are kept at a higher figure than is required by the needs of the Indian Government?—I understand that that is so. I understand very often that large sums are in hand, but they will not lend them out unless they get the full bank rate; for instance, if the bank rate at Calcutta is 7 per cent., the Government will not lend to the banks unless it gets 7 per cent.

2369. I think that in paragraph 7 of supplementary note A to Appendix XVI. (page 529) you suggest, assuming the bank rate in India to be 7 per cent. or 8 per cent., that the Government should lend these balances at 1 per cent. below the English bank rate?—Yes.

2370. Would that not be conferring a very signal favour on a very small class of the community?—I do not think so, because this is money that would be lent to the trades, and the whole country would benefit.

2371. But they will not have sufficient money to lend to every possible borrower?—It depends on the amount of the reserve.

2372. Can you conceive of any reserve that would enable them to lend to every possible borrower?—I understand that the reserves are generally big enough to lend to the banks.

2373. Then the banks to whom it was lent would be receiving very favourable treatment?—They would borrow at 4 per cent. and re-lend at 5 per cent., which would mean 1 per cent.

2374. They would re-lend to certain people at 5 per cent.?—They would re-lend to the trade—to whoever wanted it. In that way trade benefits and the country develops.

* Not printed.

2375. What I put to you is that they would not have enough to lend at that special rate to all the people who came to them?—Of course, if they have not got the money they cannot lend it; but they can have the money, as I explained, by this system of mine.

2376. In that case they would have to pick out certain clients who should have money at 5 per cent., while to other clients offering the same security they would be charging 7 per cent. or 8 per cent.; is that not so? Perhaps I do not make myself quite clear?—I do not quite follow.

2377 The assumption is that the Indian rate is 7 per cent. or 8 per cent., that the Government then lends, we will say, a million of money to certain banks at 4 per cent. on the condition that those banks shall lend it out again at not more than 5 per cent.?—Yes.

2378. To the extent of that million, the banks will lend on good security at 5 per cent.?—Yes.

2379. But the moment that million is exhausted they will have to charge 7 per cent. or 8 per cent. on the same security?—Not necessarily, if they have got 59 millions more.

2380. The moment the money placed at their disposal is exhausted, they will have to charge the higher rate to any other client?—No; give them another million, as trade requires. The Government have 59 millions now in their pocket; give trade another million on short notice.

2381. Is it your view that the resources of the treasuries are inexhaustible?—Yes, inexhaustible.

2382. What do you mean when you say in paragraph 6 of Appendix XVI. (pp. 518–9), "Personally I "should like to see more taken from the people in the "same way, for, if the Government does not take it, "the people's creditors will." Do the words "in the same way" refer to taxation?—Yes. The Government and the people are one, and whatever the Government take they give back in another form. If they take it in the form of a railway, they give it back in military services, or in sanitation, or in medical services, or in anything of that sort; it always goes back again.

2383. You think, in fact, the Indian Government will spend the people's money more wisely than they will spend it themselves?—Undoubtedly so.

2384. In paragraph 7, headed "The Gold Standard and Paper Currency Reserves," you say that the Gold Standard Reserve ought to be held in London?—That is my view.

2385. Because it is in London that it will be wanted?—Yes.

2386. You see "no objection to investing the "greater portion of the Gold Standard Reserve in "easily realisable gold securities, not putting too "much into one basket"?—That is so; but I go beyond that, and I say you can invest the whole, if you want to do it. You do not want to do it in fact, but if you do want to do it, you can invest every sovereign and you can keep the sovereign in your pocket. That seems rather curious.

2387. That is a point I wanted to put to you. In your opinion it is not necessary to keep any part of the gold reserve in bullion, is it?—It is coming in all the time. You pay it out at one end of the chest, and it is coming in at the other end.

2388. But you do think it necessary to keep a sufficient amount of Paper Currency Reserve in bullion so as to be able to redeem the notes which might be presented?—Yes; and that you have now.

2389. Together, I think you say, "with a safe margin for emergencies"?—Yes.

2390. You go on to say "using it to supplement the Treasury balances as required by trade"; is "it" the margin which you keep for emergencies?—It is that, or as much more as you like; it is really as much as trade requires. You have 59 millions in your pockets now, and you can give trade one, two, or three millions.

2391. Would you mind looking at paragraph 8 of Appendix XVI. (page 519)? There you say, "With "regard to the currency reserves, as much silver coin "as is likely to be required to encash currency notes "presented to Government for payment, should be kept "in India, with a safe margin for emergencies, using it "to supplement the Treasury balances." What is "it" there; is it the whole of the money so kept, or is it only the margin which you reserve for emergencies?—You can use both, say, the whole; as a matter of fact, it goes out at one end and comes in at the other end.

2392. And in paragraph 16 on page 521 you suggest that some form of Government bond might be created, to be kept in the Paper Currency Reserve as part of its investments, I understand?—Yes.

2393. To represent the money spent out of reserve on capital expenditure?—Yes.

2394. Do you think that in case of a sudden demand for rupees there would be time and opportunity to convert such bonds into metal?—Yes. As I have been trying to explain, the chest never need be emptied by a single sovereign; by the Government surpluses, or by borrowing you can keep the Treasury always full. What you borrow from the public this year you repay next year out of your surpluses.

2395. But suppose they had not a surplus next year?—Then just wait till the year after.

2396. They would borrow again?—Yes.

2397. In fact, their expenditure ought not to be conditioned by their income?—No. A surplus is bound to come sooner or later, otherwise India would have burst years ago.

2398 You would borrow boldly?—Borrow boldly.

2399. To whatever extent might be required?—I would borrow boldly at one end of the Treasury, and as your good years come round you repay what you have borrowed.

2400. In fact, as I understand, you would start with the consideration of what it was desirable to do if you had limitless money?—Yes.

2401. And then you would do it?—Yes, go through with it, thick and thin. You can do that and still keep your reserve Treasuries, both your Gold Standard Reserve and your Paper Currency Reserve, chock full. Is that so, or is it not so?

2402. I think I am here to examine you, not to be examined?—I mean to say that, if I am wrong, I want to know where the fallacy is.

2403. I understand your view is that gold in circulation—I am not now speaking of gold that is hoarded—is wasteful?—It is all the same whether it is hoarded or whether it is used as currency.

2404. Is it as wasteful in circulation as if it was hoarded?—It is, in this respect. For fertilising purposes, gold of course is useful, but paper, or the silver currency which India has, fulfils exactly the same purpose. The Government collects this sovereign through Council bills here in London and pays out 15 rupees at the other end; those 15 rupees will fulfil exactly the same purpose as if the gold coin were kept in circulation for fertilising purposes.

2405. Therefore, the paper or the silver has all the advantages of gold in India, but gold has advantages for use outside India; is that your view?—Just so, you use the sovereign here to develop India.

2406. I would like to ask you incidentally whether you have formed any opinion of the extent to which the gold which has gone into circulation in India, has been hoarded, or is being hoarded?—I saw some figures the other day to the effect that in the last 10 years the Government had paid out from the Treasuries 47 million sovereigns.

2407. What I wanted to get at was whether your experience led you to form any view as to the proportion of that sum which remained in circulation?—In India I never see a single sovereign. I can get them at the bank if I want to, and I change my spare rupees into gold to come home with—I can always change them at the bank—but you never see gold in circulation in India, at least I never see it.

2408. (*Sir Ernest Cable.*) In Bombay and the Punjab sovereigns circulate?—Yes, they circulate in the Punjab, but I am speaking of Bengal.

2409. (*Chairman.*) Should I correctly represent the idea which you have been trying to convey to the Commission if I said that you regarded gold in India only as a cheque which could be drawn upon Europe?—Exactly.

2410. And which would be useless until it was drawn and honoured?—Exactly; until it is drawn India never receives the equivalent in produce. Since 1835 India has imported about 300 million sovereigns which are still lying uncashed.

2411. I think your view is that the Secretary of State ought to sell his Council bills, not only freely as he does, but at such rates as would prevent gold ever going to India?—He should sell at 1*s.* 4*d.* to the rupee; that will secure him every sovereign.

2412. Your view being that he should intercept all gold that might be drawn to India?—Yes.

2413. He should frame his rates so as to prevent gold being shipped?—Exactly.

2414. I think you said to me just now that you saw no necessity for keeping any bullion in the Gold Standard Reserve; if I am wrong, please say so?—My view is that, when you are drawing out from your Gold Standard Reserve, it is coming in at the other end, so that your Gold Standard Reserve remains untouched.

2415. What is the object of the Gold Standard Reserve, in your view?—To ensure the value of the rupee.

2416. To maintain the par of exchange?—Yes.

2417. Do you not think for that purpose it is necessary to have an immediately available sum in reserve in gold?—Yes, and you have 60 millions in reserve now.

2418. Not in the Gold Standard Reserve?—But you have altogether.

2419. You are taking the Paper Currency and the Gold Standard Reserves together?—Yes. You have 20 millions in the Gold Standard Reserve, I think.

2420. The Paper Currency Reserve has a different purpose to serve?—Exactly, but that does not matter. It is a matter of accounting, really.

2421. Are you not setting up a reserve to redeem your notes, and then counting that reserve as available to maintain exchange? If it is wanted for the one purpose it will not be available for the other, will it?—Yes.

2422. Can it at the same time be available for both?—Yes, by borrowing. You draw from one end of the chest, and borrow and fill up the chest at the other end.

2423. At the moment when you would naturally call upon the Gold Standard Reserve to maintain the exchange, what do you think the effect of large borrowing would be?—You need not make your borrowings large; you can borrow every day, if you like.

2424. Suppose you borrow every day, what do you think the effect on the exchanges will be?—Do you mean the effect on the Indian exchanges?

2425. Yes. Suppose the exchange is falling, and at that moment the Indian Government is borrowing freely and has no gold reserve?—The exchange cannot fall below 1*s.* 4*d.*

2426. Why?—Because the Government has got the gold to ensure that.

2427. I thought you said the Government need not have any gold, but that it could borrow instead?—It borrows, but then it fills up the borrowing in the good years.

2428. If the Gold Standard Reserve were used as you would wish, it would be largely utilised for reproductive works in India?—Yes.

2429. If a crisis came, and it was needed for the maintenance of exchange, am I right in supposing that you assume that it would be possible for the Government immediately to borrow on the reproductive works so created?—Yes. You have 12 million sovereigns in hand just now, which is more than India wants for reproductive purposes; you have that in the difference in the exchange alone, and India does not want it at the present moment. In addition to that, you have got 48 millions in hand available to maintain exchange.

2430. The 12 millions are the difference between the gold value of the Currency Reserve and the rupee value?—Yes, and India does not want all of that just now.

2431. Therefore your first proposal will be to diminish the Currency Reserve by lending 12 millions?—I mean to say, lend as much as is required. We do not want 12 millions; two or three millions will be enough just now.

2432. By whatever amount you do require for your immediate development programme then?—Yes.

2433. Suppose that were done and we had exhausted that reserve in the course of time, then we should come to the Gold Standard Reserve?—Yes.

2434. I understood from Appendix XVI. that you thought a large portion of that also might be spent on reproductive works?—Yes.

2435. Is that because you think it can never be wanted for the maintenance of exchange; or is it because you think that even in that form it will be available for the maintenance of exchange if wanted?—Yes, because I should pay it out at one end of the box, and it comes into the other by borrowing, so the box is always chock full.

2436. Is your argument based upon this, that the power of India to borrow for reproductive purposes is unlimited?—It is unlimited so long as she increases her productive works. The more she increases her productive works, the greater her credit is, and the more she can borrow as wanted.

2437. But the power to borrow is irrespective of the condition of trade at the moment, or of the state of the London money market at the moment?—She would only borrow when her trade was bad and when she had no surplus in her pocket from a good year.

2438. (*Mr. Keynes.*) Do I understand that you want to spend money out of the Gold Standard Reserve for building railways?—That is possible. I do not want to do so.

2439. You want to spend out of it for reproductive purposes, and then you would replenish it by borrowing?—Yes.

2440. Why should you not borrow right off and leave the Gold Standard Reserve alone?—We do not want to borrow. We have got 12 millions of gold in our pockets now, and all we want is three or four millions of that, so why should we borrow?

2441. (*Chairman.*) Now may I return to another subject, the question of the gold currency? In paragraph 22 of Appendix XVI. (page 523), after quoting the opinion of the Fowler Committee in the preceding paragraph, you say events have falsified the view that the hoarding of gold would not be materially increased; do I gather that your opinion that the hoarding of gold has been materially increased is based on your personal experience in Bengal?—No; I am basing it on the Government figures.

2442. Those figures show the amount of gold which has gone into circulation, but are there any figures which show the amount of gold which remains in circulation?—There is nothing to show that—absolutely nothing. I understand that the Government figures show that India has imported more gold and less silver than before.

2443. You are not, I think, favourable to the establishment of a mint in India?—As I say, I am totally against gold coinage for India anywhere, either here or anywhere else, and therefore I could not favour a mint.

2444. That, I think, is a little more than you have said hitherto. I understand your view that a gold coinage is a wasteful use of gold is not confined to such conditions as now remain in India, but is general?—It is general, because every sovereign in circulation means that India has parted with some of her produce and has got nothing back.

2445. With regard to the loaning of money to the banks, the Government, I think, already have considerable balances with the Presidency banks?—I suppose they have; I do not know what they have, really.

2446. Do you fix any limits in your mind as to the amount which they should lend to the banks under such circumstances as you have foreshadowed?—With the enormous gold reserve they have, they might as well give to trade all it wants. Even then there would be plenty left.

2447. Would you ask for any security from the banks?—Not from banks like the Presidency banks. If necessary they might be asked to secure it, but I do not think it is wanted. From the exchange banks like the Chartered, the Hong Kong, or the National Bank of India, or from the Presidency Bank of Bengal, you would not want much security; but let them give security, certainly.

2448. Some criticism has been raised on the action of the Secretary of State in London in lending money without security to the first-class banks here; but you do not think there is any force in that, apparently?—If it is at short call, you can get it back whenever you want it. I do not think there is much in that. If you want security, take it, certainly.

2449. Suppose the Government, for purposes of trade, had lent large sums to the Presidency banks, then suppose they wanted the money back; do you think that the last state of the Indian market might not be worse than the first? Trade would have been helped and encouraged by the large sums lent by the Government, but by the Government suddenly coming in and recalling all those sums, might that not produce a very serious financial crisis?—I do not see why Government should come in when they have got 50 millions of gold behind them. There is no occasion for them to come in.

2450. Then really you do not see any reason why these balances should only be lent on short loans?—Lend them on short loans and call them in when they are wanted.

2451. There is no object in lending it as call money, unless you can call it in?—Certainly not, but there is no reason why you should call it in with 50 millions of gold at your back.

2452. Do you think it would be unsafe to lend it otherwise than as call money, or for short periods?—As a matter of business, one likes to have money on call if it should be wanted, but I cannot imagine how it should be wanted with 50 millions behind you.

2453. It is an excess of precaution, and is not really required for safety?—Certainly.

2454. I was going to ask you why you prefer that loans should be made from the balances, rather than from the Paper Currency Reserve?—That is immaterial.

2455. I think what you said to-day was that you would lend from either or both?—It is a matter for the Government of India, really. My idea was that the Treasury would be the department in touch with the public, and you should just have one department in touch with the public, with the reserves placed at the disposal of the Treasury if they wanted so much.

2456. The object of all this is to keep the available loanable capital in India; is that so?—Yes.

2457. Has it occurred to you that something of the same kind might be done by the extension of the powers of the Presidency banks; if, for instance, they were given power to borrow temporarily in London when there was a keen demand for money in India?—I do not see why they should come to London to borrow if the Government has so much gold behind them.

2458. You say the Indian Government is closer at hand and ought to do the business?—Undoubtedly.

2459. Now I turn to the question of the State bank. Are you in favour of the creation of an Indian State bank?—Not necessarily. I do not see that a State bank is necessary. What I want to do is to finance the internal trade; whether that is done by a State bank or by the Presidency banks does not matter. If it can be done by the Presidency banks, and I think it can be, let it be done by them. Apart from that, I do not see why a State bank is wanted.

2460. In paragraph 34 of Appendix XVI. (page 526) you deal with the financial organisation of the India Office. You say there very clearly that "there is "absolutely no reason for thinking that the Finance "Committee of the India Office have ever deliberately "made the interest of India subservient to the interests "of the London banks and financial houses," but you think it would look better, "in the fierce light which "beats upon the throne, if London bankers did not "have the ruling voice in the management of India's "finances and cash balances"?—Yes.

2461. Then you make a suggestion as to the composition of the committee, which should include one London banker, I think?—Yes, in order to get the benefit of his experience—that is all.

2462. You are of opinion that the Secretary of State must have expert advice on matters of that kind?—Undoubtedly.

2463. And that he could not rely entirely upon such advice as he could expect to receive from civil servants?—I do not think he ought to. It is so large a subject that he should get all the experience he can from London bankers and Indian bankers—indeed, from all round.

2464. In fact, your object in framing this suggestion has been to secure as representative a body as you could of all interests concerned?—Yes.

2465. Without giving a predominant position to any of them?—Still retaining for the Indian representatives the power of lending balance in India. I suggest there should be one London banker on the committee, and all the other men should be interested in India, not in London. That would secure that India's balances are used for the benefit of India. If London preponderates on the committee, it would look—I do not say it does—as if London might get the preference.

2466. You have seen, I think, a copy of the letter addressed to the Commission by the Bengal Chamber of Commerce?—Yes.

2467. Have you any observations you desire to make on that letter?—The only observation I make is that I strongly object to the coining of a single sovereign, even for sentimental reasons. A sentimental sovereign means the loss of a sovereign's worth of produce to India.

2468. (*Sir Ernest Cable.*) The Chairman asked you a question with regard to Sir Guy Fleetwood Wilson's expression of a gamble in rain, and I should like to ask the question in a slightly modified form, so as to get your views. Do you not think that the very uncertainty of rain, which is inevitable however great India's development may be, makes it imperative to keep large liquid reserves so as to maintain exchange, instead of dissipating those reserves in the manner you suggest?—I do not dissipate them; I show you they are kept intact.

2469. They are first spent, of course?—They are spent, it is true, but the chest is always kept full.

2470. Do you consider that your method is consistent with an absolutely stable and good currency?—You keep the currency reserves intact, either in gold or in silver, and therefore you do not interfere with their stability in any way.

2471. In the crisis of 1907-8 the Government paid out 17 millions and practically exhausted their stock of gold, I think?—Yes.

2472. Do you think it is wise and prudent to invest those resources? You have been suggesting investing those resources in railways, I gather?—Exactly. You can do that, and yet you can keep your box intact. That is what I am afraid the Commission have not quite grasped yet.

2473. I gather, then, to put your whole policy as you have developed it to-day in a very general manner, that your idea is to run the whole country from a commercial point of view, using the profits in development and spending them on capital account, so to speak?—Exactly; and unless you do that India is losing her produce. Since 1835 India has parted with 300 millions sterling of produce for nothing. There are 300 million sovereigns or gold cheques lying in India to-day which have never been cashed.

2474. Those are profits, of course, connected with taxation?—No, those sovereigns are the profits on the balance of trade; those are the net imports of gold into India.

2475. You do not suggest that your policy involves a fixed taxation, which might or might not be excessive, do you?—It will relieve taxation because it

develops the country. It increases the produce of the country, and therefore it relieves taxation.

2476. With regard to your remarks on Gresham's law, I would like to clear this up. You say in paragraph 22 of Appendix XVI. (page 523) that gold will be driven out of sight, but how do you reconcile that with the fact that some gold is still in circulation, that the amount is increasing yearly, and also that the Government have large gold balances which the people can have if they want?—What has gone past the Government Treasury is out of sight.

2477. What has gone into the country, do you mean?—What has gone into the country is out of sight, but the Government can bring those sovereigns in sight by playing on this exchange. If the Government sells its Council bills at 1*s.* 4*d.* it will secure every sovereign.

2478. Do you think that Gresham's law is in active operation now in India internally?—It seems to be.

2479. Surely every sovereign would have disappeared long ago if it was in full operation?—Every sovereign has practically disappeared; I mean to say, it is lost to India. There are 300 million sovereigns practically out of sight now.

2480. You have handed us in a very interesting memorandum from Mr. Fremantle on agricultural banks (supplementary note B to Appendix XVI., pp. 530–6). He takes a very sanguine view that there is plenty of capital for developing agriculture in India; you do not agree with that, I gather?—What I say is that you want to organise that capital. That is why I want banking organisation for the agricultural population in order to organise that capital.

2481. What he said was that it was available from the agriculturists, and I gather that he did not look to the banks in any way for help, if I read his memorandum correctly?—A lot of those little capitalists are agriculturists, as a matter of fact. On my own property in Sunderbund there is a moneylender who was an agriculturist. He was the man who ran the place.

2482. I suppose you would call him a banker for the purpose of this inquiry?—He is a banker.

2483. You suggest that a central bank or a State bank should devote some part of its funds towards financing agriculture?—Yes, just to give the thing a start. If it is started, then funds, I understand, will not be required from the Government. When Lord Curzon passed the Co-operative Credit Societies Act in India Sir Denzil Ibbetson, who was the man in charge, said that for every rupee put in by the people the Government would put in one rupee. The Government has never been called upon for that rupee. It merely wants a bit of a start from the Government, but once the thing is started and the people see how the thing is working they will put the money in and the Government will not require to put in a halfpenny. A little assistance is wanted at the start.

2484. I am inclined to agree there, and that perhaps it would be more the province of Government to help agriculture than a State bank?—All I want Government to do is to provide more of those organisers of co-operative credit. There is only one man in Bengal, Mr. Gourlay, to preach this co-operative gospel to about 50 or 60 millions of people.

2485. I am afraid this is rather outside our terms of reference. I was only going to make one suggestion with regard to getting money and facilities for agricultural purposes. Have you considered the question of the savings banks, which have agents in every little village, because every post office has a savings bank? Could not the savings bank deposits be utilised in that way?—I think, as a matter of fact, under the Act the societies have the power to put their money in there.

2486. (*Mr. Keynes.*) I understand you are of opinion that the Government ought to discourage the circulation of gold by all reasonable means?—Yes.

2487. And you base that view mainly on the circumstance that the use of a cheaper medium of exchange sets free resources for other purposes?—Yes.

2488. Could you say at all how widely those views are shared by other business men in Calcutta?—I do not think business men have realised what it means. Business men have not realised that all those 300 million sovereigns lying in India are uncashed cheques.

2489. You think this view of yours is not widely shared by other business men, then?—It will be when they realise what it means, but they have not realised it yet.

2490. At present it is not widely shared?—Because they do not understand it. If those 300 million sovereigns which are lying in India to-day were bodily lifted by the Government and brought to Europe, they would buy 300 millions' worth of European goods to which India is entitled. That sum has never been cashed yet, therefore India has lost 300 millions sterling worth of produce since 1835, and has got nothing in exchange.

2491. (*Chairman.*) Does the same apply to the gold in my purse?—No.

2492. Why not?—Because this is the balance of trade due to India which has been received in gold. Europe has paid for it by a gold cheque.

2493. (*Mr. Keynes.*) In paragraph 6 of Appendix XVI. (page 518) you suggest that the Treasury balances should be lent to first-class banks; from an answer which you have given to-day I understand you to include in the term "first-class" Presidency banks and exchange banks?—Yes.

2494. Any others?—I should not like to recommend any others. There are one or two banks such as the Allahabad Bank.

2495. (*Sir Ernest Cable.*) And the Alliance banks?—Yes; they are local banks, and they are perfectly sound.

2496. (*Mr. Keynes.*) Would you include them under the term "first-class"?—Certainly.

2497. If it was thought right to ask security from these banks, could they give good security in large quantity, do you think?—If they could not give it, do not give them the money.

2498. I am not asking you that question. If it was thought right to ask for security, could they give it?—I daresay they could raise it, as they are very strong financially.

2499. What sort of security do you think the Government could accept?—They could accept securities like Calcutta Port Bonds, the Bombay Port Trust, or Government paper, or things of that kind.

2500. If the banks were asked for paper of that kind, what sort of amount do you think the Government could lend against the security? Could the banks of India provide five millions worth of that kind of security?—They can provide 20 millions, and still have 40 millions in their pocket.

2501. My question is: If the Government were to offer to lend five millions of Treasury balances against such sort of security as you have named, namely, Port Trust loans, and so on, would the banks provide security up to that amount of five millions?—I do not know; but whatever they want to borrow, if they are not able to give security for it, then do not let them have it.

2502. You do not think that they could give very much security?—I do not say that. I do not know what their resources are, and therefore I should not like to say that.

2503. You have no clear opinion on the point, and feel doubtful?—I have not their accounts before me, and I cannot say until I see their accounts.

2504. (*Sir Shapurji Broacha.*) What do you mean by saying that there are 60 millions in hand at the present moment? There are 27 millions in the currency, 18½ millions in the Gold Standard Reserve, and two millions in paper, that makes 47½ millions; how do you get the difference between 47½ millions and 60 millions?—The whole reserve, I suppose, is turned into gold now.

2505. It only makes 47½ millions at present?—Of gold, or gold securities?

2506. Taking gold and gold securities?—In addition to that, you have got your silver.

2507. You say that you can convert the 27 millions of gold in currency into 40 crores of rupees, and have a

balance of 12 millions which could be employed in the Public Works Department?—As far as may be necessary, but the Department would not want it all, as a matter of fact; they would only want a share of it.

2508. You would destroy the whole fabric of the gold standard, because there are only 18½ millions of securities?—As I have been trying to explain, as you pay it out it comes in again.

2509. If you borrow in a year of famine, you do not get anything at all. In a partial famine in one year the Government had to give out 15½ millions of gold; supposing it had been not a partial famine but an extraordinary famine, there would have been nothing left?—But you can go on borrowing in the good years, and you need not wait till the famine years come round. You should begin making those irrigation canals in the good years.

2510. A 15 millions loan, even in the London market, would be a very big thing?—We do not want 15 millions. I understand that two millions, or three millions, would be enough for the railways.

2511. I am not talking of the railways. I am talking of people wanting to remit money from the other side here; that would have to be done from the Gold Standard Reserve, and that would not be sufficient to cash all the demands, if you carried out your scheme?—I have been trying to explain how it can be made sufficient. You can go on borrowing every day if you like, in the market. Do not wait till the bad year comes round, because if you do that you may be landed.

2512. Do you mean go on borrowing and keep it in the reserve at interest?—Borrow as you did for your canals in India, and go on borrowing. If you have a surplus in hand, of course you will not want to borrow, but there should be a continuous chain going round.

2513. Whatever they have borrowed they have already spent, and there is nothing left of that; say that they have borrowed and spent about 10 millions or more, do you mean that they should borrow another 12 millions in the same year, if it is a good year, and put it aside?—Whatever you put out at one end of the box comes in at the other, day by day. This year, for instance, the Government has a surplus of seven millions sterling, and they do not require to borrow a halfpenny. You get that seven millions in your surplus, and you put it into your canal.

2514. Say that the Government loses six millions or seven millions in revenue, and they have to pay in assisting the ryot besides; and say that India exports 30 millions or 40 millions less of produce than in good years; then there are tremendous losses in other ways for which the Government have to provide by borrowing. In a famine year, when we require the assistance of the Gold Standard Reserve, India loses in the shape of lessened export trade about 30 millions or 40 millions because she has not produced enough to export, and the Government have to assist the ryots to get their food; then the railways earn very little, and the Government in that year, besides having to provide for the par of exchange, are therefore at a heavy loss. That cripples them for borrowing for other purposes than to meet the immediate necessity, so you cannot bring your theory into play in that year?—I do not quite understand why. I would like to finish this particular question you have raised, as I am afraid I have rather failed to make myself clear. Supposing this is the Treasury, and money is being paid out in making an irrigation canal——

2515. You must remember that the 27 millions is already exhausted and there is nothing left?—But it is in the box just now. You pay out this money, and you dig a canal as you pay it out. It is a good year just now, and, therefore, money comes in at the other end as it goes out at this end.

2516. I do not understand it. You say these are very good years, and you have used up the 27 millions of gold by turning it into rupees and spending the balance on public works. But when we have done that, and when we have enriched ourselves with great public works, famine comes in and the reserves are already without that 27 millions sterling?—No, excuse me; we start now to-day, when we have 27 millions in our pocket.

2517. (*Chairman.*) I think the point Sir Shapurji is trying to put is that when a bad year comes, instead of having 27 millions in your pocket you will have the 27 millions in the canal; the canal may be a most valuable work, but it does not give you money for the immediate emergency?—Yes, it does, and I just want to explain why. The box is full just now; you start digging this canal; it is a good year and you have plenty of money in your pocket; that sovereign goes into the canal, but you have a good year and then this sovereign comes into the box.

2518. (*Mr. Keynes.*) Where from?—From the surplus—the seven millions of taxation.

2519. That mounts up to the 27 millions, does it?—This year the Government has a surplus of seven millions, so you have got that seven millions to start with. You pay out one sovereign from this seven millions, and you put one sovereign in in respect of it. Now, is the reserve intact or not?

2520. (*Chairman.*) As long as you only draw out the same as you are putting in it remains intact?—Now we are coming to it. That sovereign has gone, but another one is in the box. The next year is a bad year, and you go to the money market and draw from that. You give the money market your paper, or whatever it is, and then another sovereign goes in; so you have had two sovereigns taken out and two sovereigns put in.

2521. (*Lord Faber.*) Say that you have two bad years, the money market then will button up its pocket and will not lend you anything?—Every country in the world is borrowing on the London market, so why cannot India?

2522. (*Chairman.*) The assumption on which your argument rests is that, no matter how prolonged the bad times, India can always borrow as much money as she wants?—Exactly, and she had done it up to the present day. If she had not been able to do it up to to-day she would have been bankrupt.

2523. Does not that carry you to this, that there is no necessity for a reserve at all? Why pass the sovereign into the reserve? Why make a pretence of keeping it in a box when, in fact, in the bad time you are going to rely upon borrowing to meet your needs? Why should you pass it through the reserve at all? Why should it not remain in the Treasury and go direct from the Treasury to the canal?—In that case, Government is not building the canal, and that is what I want to point out.

2524. Is there, in your view, any necessity for a reserve at all except that reserve provided by the Government's power to borrow?—Power to borrow, combined with the surpluses; that is all the Government wants.

2525. (*Sir Ernest Cable.*) Using the surplus in a good year, and borrowing in a bad year?—Yes. Does the Commission understand that the reserves remain intact? Might I finish my illustration?

(*Chairman.*) I think I understand your illustration, because you have given it us once or twice. If I rightly understand your illustration, the reserve becomes valueless.

2526–7. (*Sir Ernest Cable.*) And there is no need for the reserve?—There is no need to increase it more than is necessary. You should keep sufficient in hand always to ensure cashing your currency notes, but beyond that you can go on indefinitely building railways.

2528. (*Chairman.*) That only means that you are to have credit at your bankers equal to the amount of the cheques you draw?—Yes, and your credit is improving all the time, because you are increasing your irrigation canals. In that way you improve your credit and you can borrow cheaper in the London market than any nation in the world.

2529. (*Sir Shapurji Broacha.*) Do you mean that the Secretary of State must sell under the gold par?—He must buy all the sovereigns at 15 rupees to the £.

2530. Supposing the Secretary of State has 20 millions of surplus, as it is called, though it is really a part of the Indian revenue and is not a surplus, and he

has to send that money back to India for the Government to expend?—It is coming back again, as I am trying to explain. The chest always remains the same as it is now.

2531. I am not talking of the chest now. Whatever the Secretary of State holds he holds from the revenue of India; he might be able to keep 10 millions here for one year, but what about the second year? Should he accumulate all the revenues of India here, or should he send it back in some shape to spend it there?—He can both save it and spend it.

2532. There are those who like to have gold and who do not calculate the exchange rate when they are importing gold into India; last year they imported 12 millions of bar gold when it was not a question of the exchange rate. There are those who would give almost anything over or under par to get gold there?—If the Government offer 1*s.* 4*d.*, they will keep every sovereign here, if they wish it.

2533. They take gold there in bars, and the 12 millions I have mentioned were taken there quite independent of the Government, and quite independent of the exchange rate; how can you prevent that?—You cannot prevent it; but in that case you pay 22 rupees for your sovereign instead of 15.

2534. No, I pay 15 in India. How can you prevent me taking gold out, independent of the exchange rate?—What happens is that India has lost her produce and she cannot get any gold. The gold, to begin with, is in the hands of the exchange banks; the balance of trade is not in the hands of private individuals because the exchange banks collect that gold here.

2535. The export will be financed in the way the people want; they send exports here, and they ask for gold, and they will get it without the aid or interference of the Secretary of State?—The whole balance of the export trade is financed by the exchange banks.

2536. That is quite true, and the exchange banks help them to bring in gold bars?—We can stop it by asking less than 1*s.* 4$\frac{1}{8}$*d.*

2537. In India the export trade is financed in two other ways, first, by sending out gold as merchandise, and secondly, by sending out silver as merchandise, and dispensing the rupees there to pay for the export from that side?—When a man exports goods from India, what does he do? How does he get his money back—from the exchange banks, is it not?

2538. Perhaps; but the exchange banks do not take all his sovereigns?—I want to show how the circle goes round. The total export trade of India, I understand, is financed by the exchange banks. Goods are sent out of this country, the banks pay the exporters here, they get a draft, say, from the Secretary of State, and they recover the money there. That money has got to come back to England, and it comes back in this way: They pay the exporter there the sovereign they collect on the other side, and that sovereign comes back to England. In that way the exchange banks collect the whole gold balance of trade, but if the whole gold balance of trade is financed by the exchange banks, they want to get this gold balance back to India so as to send home more produce. They have two ways of getting it back. They can buy Council bills of the Secretary of State, and if he asks too much for them—if he asks 1*s.* 4$\frac{1}{8}$*d.* or 1*s.* 4$\frac{5}{32}$*d.*—the banks will say, no, it will not pay us; we shall ship the gold out by steamer. If he asks 1*s.* 4$\frac{1}{8}$*d.* for his drafts, the banks will say, no, if I send my gold out to India I can get all the rupees I want at the rate of 15 to the sovereign; therefore why should I pay you 1*s.* 4$\frac{1}{8}$*d.*? If the Secretary of State refuses to give his rupees for 1*s.* 4*d.*, that gold passes the Government and finds its way out to India, as Sir Shapurji suggests, and then that amount of produce is lost to India. But it does not pay the exchange banks to ship gold out to India if they can get a rupee for 1*s.* 4*d.*, because by buying from the Government Council bills and telegraphic transfers they can get the money at once on the other side, whereas if they buy gold here and ship it out they lose three weeks' interest. In that way the Government can force the exchange banks to part with that gold by working the exchange, and when they get the whole of the export trade into their hands in that way they simply prevent India losing her balance of trade, as she otherwise does.

2539. Are rupees hoarded now?—I cannot say.

2540. You are certain that gold is hoarded?—I am undoubtedly certain of it.

2541. Do you know that since 1900 about 150 crores of rupees have been coined?—Yes.

2542. That there are only about 17 crores visible and the other has gone into circulation; it must have done, because it could not have been hoarded?—There must have been a certain amount of sovereigns hoarded since 1835, because 300 million sovereigns have gone into India and have never come out of India. I am in India every year, and I never see a sovereign. Where are those 300 million sovereigns?

2543. If they use in circulation about 135 crores of silver coin then they are not much good for hoarding; the people would rather hoard the gold itself, would they not?—Exactly.

2544. Taking the figures given in one year for the railways, for savings banks, and the Post Office, I find there was a circulation of about three crores of sovereigns; that shows that there is a circulation of gold?—Has that gold come back to the treasuries again?

2545. You say that that circulation ought not to be very much encouraged?—I say for every sovereign in circulation India has sent away a sovereign's worth of produce and has got nothing back. That is what it means, and there is no getting away from it. If those 300 millions of sovereigns were brought to Europe to-day they would purchase 300 million sovereigns-worth of goods; that has not been done, and, therefore, India has lost those goods. There is no getting away from that.

2546. (*Sir James Begbie.*) You think Council bills and transfers should be sold freely for the convenience of trade?—Yes.

2547. You may remember that Council bills were started for the purpose of remitting home the home charges?—Yes.

2548. Do you approve of the sales of Council bills in excess of the amount required to pay the home charges in order to meet the convenience of trade?—Yes, I want to send every sovereign both for the home charges and above the home charges, because I believe that for every sovereign not so secured, India loses a sovereign's worth of produce.

2549. Do you understand that the money from which the home charges are paid is money raised by taxation in India?—By revenue and taxation.

2550. Are you in favour of Council bills being sold against the Treasuries in India in excess of the amount that is wanted to meet the home charges?—Yes, I would sell everything the banks like to take.

2551. Even if the taxpayer has to find the money?—I do not quite follow.

2552. How far would you go with your drawings against revenue?—To the extent of the entire balance of trade. If the Government does not secure that sovereign, the taxpayer loses it. That is what I maintain.

2553. One other question about a matter which has been mentioned already, namely, the hoarding of gold. You have alluded to an immense quantity of gold that is hoarded; is it not the case that banking deposits have greatly increased, also investments in securities of the Government and of municipal authorities and private concerns?—Yes.

2554. So there are cases where hoarding is not taking place?—Undoubtedly.

2555. (*Chairman.*) There is one recommendation or suggestion in your memorandum which I think none of us has asked you about, and perhaps I ought to ask a question on it. It is in paragraph 5 of supplementary note A to Appendix XVI. (page 529). You suggest there that the Government and the Secretary of State should find the average silver purchases for a period of years, good and bad, and every year coin the average or a little more. That you recommend in order to "kill "the gamble connected with the existing spasmodic

" method of purchase and protect Government from " being cornered " ?—Yes.

2556. Has your attention been drawn to the very large variations between one year and another in the demand for rupees ?—Yes. I understand that for the last four or five years the Government have not had to coin any silver until lately.

2557. We have it in evidence—I have not got the question before me, but I think my memory is right—that in one year the people of India took out eight millions sterling in additional rupees, and the next year they returned 12 millions into the Treasury owing to the bad trade, or, as the witness put it to us, there was a difference between plus 8 and minus 12; how would you strike an average with such big fluctuations as that ?—We know that the silver purchases for 10 years have been 60 millions; taking good and bad years that 60 millions has been sufficient to meet the demand against currency notes presented to the Government.

2558. But the demand has not been at all regular during those 60 years ?—No, it has not.

2559. Now that we know what the total demand was, if we divide it by the number of years, and the Government purchase that amount each year, might they not be left short in one of the busy years ?—They will have less to purchase in that case than they have now. Suppose they buy, say, six millions every year annually for, say, eight years: that is 48 millions they have in hand, so that if a tremendous demand springs up, they have less to buy in the silver market than they otherwise would have.

2560. If in the early years it has averaged more, then they have so much money lying idle ?—That is so, but in that case they lend it as required, and utilise it in that way for financing trade.

2561. That is to say, they coin the rupees at once, whether wanted or not ?—As required.

I should like to make clearer to the Commission how I prove that the one sovereign produces 16 in 14 years. I have here a lecture delivered before the Society of Arts by Sir John Benton, K.C.I.E., on Irrigation Works in India. He gave figures showing the capital outlay, and he says if we spend 20*l.* on canals, he would lend 24*l.* every year on food crops. If Government secure this sovereign, this gold balance of trade, that means that by creating a canal, in 14 years it gets back 14 millions sterling worth of produce, because for every sovereign it gets back 14 golden sovereigns plus the two sovereigns representing the capital cost and interest; so that for that one sovereign spent you get back 16 sovereigns in 14 years, and therefore, for every sovereign which escapes the Government, that is lost.

The witness withdrew.

At the India Office, Whitehall, S.W.

EIGHTH DAY.

Thursday, June 26, 1913.

PRESENT:

The RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. J. A. TOOMEY and Mr. T. FRASER called and examined.

2562. (*Chairman.*) I think, Mr. Toomey, you come here to-day with Mr. Fraser as representing the exchange banks doing business in India ?—(*Mr. Toomey.*) That is so.

2563. Will you tell me the names of the banks which you represent ?—The Chartered Bank of India, the Hong Kong and Shanghai Bank, the Mercantile Bank of India, the Eastern Bank, and the National Bank of India. (*Mr. Fraser.*) The foreign banks also, the Deutsche-Asiatische, the Russo-Asiatic, the Yokohama Specie Bank, the Comptoir National; in fact the only bank that did not intimate that they wished us to represent them is the Delhi and London Bank.

2564. Do you represent the International Banking Corporation ?—Yes.

2565. I understand from the memorandum (*see* Appendix XVII., page 536) you have been good enough to send us that you have no criticisms to offer us to the location and management of the balances of the Government of India ?—(*Mr. Toomey.*) No.

2566. And none as to the sale of Council bills and transfers ?—What we say on that point is that we would deprecate any change being made in the sale of Council bills. The present system is admirably adapted to the requirements of trade, the amount put up weekly for tender being well regulated by probable requirements, while additional amounts can be obtained at a small premium. We consider that the sale of Council bills is well handled, the system adopted being the outcome of many years' experience.

2567. In your memorandum you advocate the lending out of the surplus balances of India during the busy season, I see ?—Yes, we do.

2568. And, to that extent, you criticise the present use of the balances ?—There is an agitation that the Government of India should lend these surplus balances, and we see no reason why the balances should not be so lent, say, to the Presidency banks, at a somewhat lower rate than the bank rate for the time being. At the same time we do not think there would be a very large amount of money required in that way.

2569. You do not suggest, I presume, that the balances of the Government of India should be increased for that purpose ?—No, certainly not.

2570. Only that when there is a surplus balance it should be used in that way ?—Yes, if there are surplus balances.

2571. Do you think that the balances kept at the Treasuries in India have been higher than they need to be ?—No, I think not.

2572. Up to the present, then, these surpluses of which you speak could hardly have existed ? Perhaps I did not make myself quite clear; I meant, were the balances higher than it was necessary for the Govern-

ment to keep in the treasuries to meet the calls which might come upon them, and would there have been in recent times any capital which they could safely loan out?—Yes, I think they could have lent out money in India to the market.

2573. On short loans?—That is so, for two or three months, against Government paper, port trust bonds, and securities of that type. As I say, I do not think that these loans will be required to any large extent.

2574. Would you suggest Government lending for as long as three months?—Three months would carry them over the busy season.

2575. You are aware, of course, that that is longer than it has been their practice to lend on the London money market?—Yes; they lend here for four or five weeks.

2576. That is in order that they may be certain of getting it at any moment of pressure here?—I think in the case of India the money might be lent for two or three months.

2577. Suppose that that practice were adopted, and suppose that they had lent out considerable sums in India, do you think any difficulty would be caused when, on any occasion, they were unable to lend?—No, because the market has been getting on well enough without these Government loans.

2578. You do not think there is any danger of the market coming to rely upon this power to get loans from Government, and then being caught short sometimes when the Government cannot lend?—I think not, if the Government were to announce their inability to make these advances some little time before.

2579. I think you said just now that these loans should be made slightly below the bank rate?—Yes; somewhat below.

2580. Would you attach any conditions to them if so made, that is to say, any conditions as to the rates at which the money should be lent again by the banks?—No. I take it money would be lent to the Presidency banks at something like 1 per cent. under the bank rate; and that would leave the Presidency banks free to lend money at the bank rate to their customers.

2581. Would not the customers who thus indirectly get the Government money be financed on more favourable terms than those who had to rely upon the ordinary resources of the bank?—I think not, because as a general rule people can now borrow on those securities at the bank rate.

2582. From what you have said as regards the sale of Council bills and transfers, I gather that you do not think the Secretary of State is injudiciously keeping gold out of India?—No; I think quite enough gold goes to India.

2583. Do you think that he sends any more than ought to go?—No, I think not. It is only the surplus after the sale of Council bills that goes to India in the way of gold.

2584. Now going to the Gold Standard Reserve, have you any criticisms to make upon that?—Yes. We consider that the whole amount should be kept in this country in gold and gold securities, and that the latter, as far as may be practicable, should consist of short-term maturities. We further consider that a much larger proportion of the reserve should be retained in actual gold than has been the custom in the past. All profits on the coinage of rupees should be credited to the reserve, as we are strongly of opinion that the time has not yet arrived when it is safe to place a limit on the amount of the reserve. We do not approve of any portion of the reserve being held in silver.

2585. Do you suggest any figure for the amount of gold that should actually be held?—No, but we think that it ought to be a good deal larger than at present.

2586. I understand you to say you hold nothing here except either actual gold coin and bullion or short-dated securities?—We say that a larger proportion than at present should be held in actual gold, and the rest, as far as possible, in the shape of short-term securities.

2587. It has been suggested to us that the crisis of 1907–8 afforded the best test available, or a very good test, for judging of the amount of gold which is actually needed; do you share that view?—Yes, it did; but, of course it was only a partial famine or breakdown. It was a small breakdown.

2588. There was a very severe financial crisis in America and elsewhere?—Yes.

2589. But there was only a small famine in India?—Yes.

2590. You would think, therefore, that it was not safe to take that as a measure of the liabilities that might come upon you?—No, nothing like it. With a severe famine a much larger amount of gold would be taken out.

2591. I think it has been stated that the object was to get five millions of the reserve in gold; you would think that quite an insufficient sum, I gather?—Yes.

2592. But you would not like to name any figure?—I do not think we need place a limit just now.

2593. Would you wish, whatever your figure was, that it should bear some sort of proportion to the trade of India, and rise as the total trade of India rises?—I say it ought to be proportioned to the total amount of the reserve; that is, that it should bear a proportion to the amount of the reserve.

2594. Should both the reserve as a whole and the gold portion of it bear some proportion to the trade of India? Suppose we were able to fix on a figure which we thought safe under the present circumstances, would you say that as the trade of India expands it would be necessary that that figure should rise in proportion?—Yes, it should be enlarged.

2595. You object to holding any portion of the gold reserve in silver?—Yes.

2596. And I think you said you object to the holding of any portion of the gold reserve in India?—Yes, it should be held in London.

2597. It is in the Indian branch that the silver is held at the present time?—Yes.

2598. Will you tell me why you object to holding any portion of it in India, and why you object to having any portion of it in silver?—We think it best to hold the reserve in London, because this would be the market where the money would be actually required in an emergency.

2599. Your objection to holding any part of it in silver is due to what cause?—It is a Gold Standard Reserve, and we say it ought to be in gold. (*Mr. Fraser.*) We consider that silver could not under any possible circumstances support a gold standard in a crisis.

2600. Have you any criticisms to offer as regards the Paper Currency Reserve?—(*Mr. Toomey.*) We hold that a proportion should be kept in this country in gold, and so could be made immediately available for purchases of silver, or released in case of need against the deposit of rupees in India. When gold is available in India, the currency note department should, in normal times, be prepared to pay out readily sovereigns against notes or rupees.

2601. That has been the case, has it not?—Yes.

2602. Have you anything to say as to the proposal which has been made for the opening of a gold mint in India?—We say that in our opinion existing conditions in India do not call for the establishment of a mint for the free coinage of gold, seeing that the country obtains all the sovereigns it requires free of minting charges. If, however, it should at any future date be deemed advisable to open such a mint, we advocate the coinage thereat of the sovereign. Our branch managers have written something on this point, and I do not know whether I should tell you what they say.

2603. We should be very glad to hear it?—The Calcutta manager of the National Bank of India says that a gold coinage is not really wanted in India, but "if gold is to be coined here then it must be the "sovereign, with which people are already more or "less familiar; any other coin would, I think, merely "be looked upon as a curiosity. Government's well "backed note issue is, I think, the thing to cultivate "as much as possible, being the most economical

" form of currency." The Bombay manager says, " Personally, I do not think that a gold coinage will " benefit India, and the clamour for it is confined to " Bombay and Karachi. The present currency system " is working well, and I do not think that people " generally want it changed." The manager at Karachi writes, " We see no necessity for an open " mint in Bombay for the coinage of sovereigns. A " gold market in India for the coinage of sovereigns " would make a firmer discount rate at home, which " would not be to India's advantage. Sovereigns had " not been tried in India when the Fowler Committee " sat and recommended a mint in India for the " coinage of gold."

2604. Do you yourself share the view, which I think one of the managers you quoted expressed, that the best currency is a well-backed paper note issue?—Yes, because it is a much more economical form of currency.

2605. Do you yourself think that sovereigns could be freely obtained now in India when wanted?—Yes, they can. That is proved by the large amount held by the Government of India. The people of the country know pretty well that they can get sovereigns if they require them, but they do not require them.

2606. They can get them at a few points only, I suppose?—I think that is so.

2607. Does the fact that these people do not take these sovereigns, although they could get them in the Government Treasuries, suggest to you that the sovereign is an inconvenient coin for them?—No, it is not at all inconvenient. It seems to me that the people have enough sovereigns in the country already for their present requirements.

2608. I put the question to you, because it has been represented to us that India is a country where most of the transactions are very small, and that the sovereign is too big a unit for their gold coin?—I think not. Sovereigns are taken pretty freely in certain up-country districts. The trouble which the National Bank of India sometimes has is not being able to get rupees for sovereigns. If I may follow that out for a moment, at Delhi the manager wrote the other day saying that he could have done some sterling business only his cash balance consisted mostly of sovereigns, and his customers who proposed this sterling business wanted payment in rupees, not sovereigns. Our manager asked the Comptroller-General for silver in exchange for those sovereigns. but he was not able to get it.

2609. Why was that?—I suppose the Comptroller-General had not got a sufficient supply of silver.

2610. But no reason was given or at least communicated to you?—That is so. (*Mr. Fraser.*) I might remark that we have had a similar experience at Delhi and Amritsar.

2611. Is it a frequent experience at those two places?—Our transactions at those points are not very large, but we have had that experience that we have had sovereigns for which it has been difficult to obtain rupees.

2612. At those two points only?—Those are the only two points up-country in which we are represented. (*Mr. Toomey.*) It would apply to up-country stations more or less. It does not apply to the Presidency towns.

2613. Some time ago the Indian Government was pressing on the Secretary of State the establishment of a mint, but abandoned the proposal on finding that the Indian mines had made contracts for the sale of their gold to Europe; do you know whether that state of things still prevails?—I have no information on that point. I cannot tell whether with an open mint the local production would go to the Bombay mint or not.

2614. I think in the last financial statement of Sir Guy Fleetwood Wilson, he stated as one of the arguments for the opening of a gold mint that there was a great deal of gold bullion in India which people might at a given time want to coin; and he suggested that it was not economical and it was not right that they should have to send that bullion all the way from India to England to get it coined, and then re-import it. What do you say to that?—If you have an open mint in Bombay I do not see any likelihood of that gold bullion being sent in to the mint.

2615. You do not think it would come out of the hoards?—No. India is steadily taking gold in the form of bars, and that is likely to continue. The people would not part with their gold except under the direst necessity.

2616. Do you think they are now hoarding gold in large amounts?—They always have done so, and the hoarding is probably on the increase, owing to the people being more prosperous.

2617. Would it be the case that the making of the rupee a token as a consequence of closing the mints, causes the people to hoard gold now, where previously they might have hoarded silver?—All I can say is that they are taking gold more freely than they did before; but still the rupee is the coin of the country.

2618. The result in any case is that a great deal of gold has gone into India and remains there either in the form of bullion or of sovereigns?—Practically it always remains there.

2619. Is that gold of much use in maintaining exchange in a crisis, in your opinion?—Not the gold held in hoards.

2620. Does the gold that has gone into circulation come out for the purpose of maintaining exchange, or does it maintain exchange in a crisis?—I think in a crisis the people would retain their gold and probably scramble for more.

2621. I will turn now, if I may, to the question of the enlargement of the powers of the Presidency banks; I think you object to that proposal?—Yes. The question of the enlargement of the powers of the Presidency banks so as to permit them to deal in sterling exchange, is one which has been brought forward from time to time during the last 50 years and has been steadily vetoed by the Government of India and successive Secretaries of State. The last time that this question was raised was in 1904, when it was proposed (1) that the Presidency banks should be allowed, when the bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India; and (2) that the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India. The Government of India, with the approval of the Secretary of State, declined to grant the powers sought by the Presidency banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the " Gazette of India " of 16th February 1907, of which we have sent you a copy.* The exchange banks at that time felt it incumbent on them to oppose strongly the proposals of the Presidency banks, and we should do so again on the same grounds, namely, that while we do not deprecate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition. The Presidency banks enjoy the prestige of being the Government bankers with immense sums of public money free of charge, whilst we are handicapped by having to pay interest on the whole of our deposits. The exchange banks have financed the external trade of India for over 50 years without any charge of inefficiency or unreasonable charges, and with the large resources at their command they are fully competent to deal with all the exchange business of the country. We maintain that the legitimate function of the Presidency banks is to finance the internal trade of the country, for which they enjoy special privileges in having large amounts of money without charge. If, however, these banks require further funds for their business it is open to them to raise additional capital in the same way as many of the exchange banks have done. It is contended in some quarters that the Government of India should lend some of its surplus balances for the benefit of trade during the busy seasons, and we see no reason why this should not be done in the same way as the Secretary of State lends money in this city on first-class securities. Our view is that the money should be lent to the Presidency banks for

* *See* Appendix XVII., page 538.

short periods on Government paper, Port Trust bonds, and the like, the money being lent at somewhat less than the ruling bank rate. We attach the same objections as those we have just enumerated to the establishment of a State bank. Banking in India is already well represented in all its branches by the Presidency banks, exchange banks, and the numerous local banks. No State bank would, in our opinion, cater for the requirements of the many millions of cultivators who are at present dependent for finance on moneylenders. Their needs could best be supplied by encouraging and developing the system of co-operative credit which under the sympathetic support of the Government has made great progress during the last few years. The Presidency banks fulfil the functions of a State bank in their respective spheres; they have their capital and resources available for the benefit of their own particular province, and to absorb these into a central institution would, in our view, militate against efficiency. The Presidency banks as they exist are in reality three "State banks," and with their head offices in Calcutta, Bombay, and Madras are better equipped for studying the wants of their respective provinces than one central bank could possibly be; and we are unable to see how such a bank could foster the development of trade as well as it is being done by the existing machinery. Further, a State bank with the control of Government money, the paper currency, and access to the London market, would virtually mean the establishment, so far as exchange is concerned, of a banking monopoly, which we feel is neither desirable nor advisable in the best interests of India and its trade. We consider that the existing currency department, with the assistance of hundreds of Government treasuries and sub-treasuries penetrating into remote districts to which it would not pay a bank to go, is much better fitted to manage and develop the paper currency than a State bank would be. The remarkable growth of the currency note issue, particularly in recent years, testifies in some measure to the efficiency of the existing system, and it is scarcely likely that a State bank could foster the extension of the note issue so well as these Government treasuries. I should like to add this note: To my mind the mere amalgamation of the Presidency banks with a central authority would present insuperable difficulties. No doubt the idea in such a scheme would be the retention of the present boards, but these would only have the shadow not the substance of power, and the central authority could not accurately gauge and satisfy the requirements of trade in all quarters nearly so well as under the existing system, and I apprehend that unfavourable comparisons and complaints would follow as to certain interests being favoured at the expense of others. When the idea of a State bank was mooted in 1899 the secretary and treasurer of one of the Presidency banks wrote to Government as follows: "My directors regret that they are unable " to concur in the opinion expressed by His Excellency " the Viceroy that a consolidation and a concentration " of banking facilities are required in the interests of " the business accommodation and credit of the " country. So far as they are aware, there is no " demand in India on the part of the mercantile and " trading community for such concentration. If the " banking facilities in the country were found to be " inadequate, an increase in banking capital would be " necessary and would speedily be called for, but a " mere amalgamation of the existing banks would not " provide an increase of capital or of banking facilities. " It would rather tend to curtail credit in many cases." The Bengal Government wrote to the Government of India in March 1900 as follows: "In the first place, it " is doubtful whether India is not too large for a " single central State bank; the directors, if drawn " from or located in the three Presidency towns, would " be too far apart from each other. Secondly, the " interests of the various Presidencies are not always " identical, and are sometimes at variance with each " other. Thirdly, it is against the public interest to " create and foster a huge monopoly. A single bank " with large resources and commanding the Government deposits would have great power over the other " banks. Fourthly, banks deal chiefly in credit, and " credit is always a matter of local knowledge and " experience." The Government of India wrote to the Secretary of State in June 1901, in reply to certain inquiries: "(Question V.) Is it likely that the possible " conflict of interests between a bank of this description and other existing institutions might tend to " discourage private enterprise, and to prevent the " development of the facilities which the public now " enjoys?" The answer was: "We think it is evident " that if a central bank were obliged to hold more " capital than it could profitably employ throughout " the year in ordinary business, such a bank would be " obliged to enter into prejudicial competition with " private banks; and further, the existence of such " surplus capital in India might check the outward " flow of capital from private sources when occasion " presented itself for its profitable employment." If these were the views 12 or 14 years ago, they have stronger force in the present day when the demands of trade and the volume of business are so much larger. When, however, it is suggested to establish a State bank, not only absorbing the three Presidency banks, but also to hand over to it the management of the currency of the country, the scheme becomes one of too vast a character, in my opinion, to be in any way practicable. The management of the currency in such a country as India is very properly in the hands of a large Government department having the control of hundreds of treasuries and sub-treasuries scattered throughout the Empire. It has taken many years to build up this department into its present state, and to expect a newly-made bank to take over the work where the Government leaves off would only invite difficulty and trouble. No State bank, however ably managed and however anxious its officials might be to meet requirements could, in addition to its primary work of attending to the wants of trade throughout the Empire, perform such a work satisfactorily, and there might be a state of chaos, resulting possibly in a run on banks in the not improbable event of a supply of currency running short in various quarters. In this respect I refer not so much to Presidency towns as to places in the interior. When it is also suggested that a State bank should, on the top of all these responsibilities, open an office in London and transact exchange business with India, the proposal is vaster than the ordinary banking mind can conceive as being in any way feasible. The trouble would be to find the genius who could carry the scheme into effect. The Presidency banks have enough to do already in attending to the wants of their respective spheres. The exchange banks have been financing the foreign trade of the country, in some cases for 50 years and more, and no complaints are heard as to any inefficiency or shortcomings on their part. They fill a most important place in the conduct of India's trade, and their record entitles them to every consideration on the part of the Government when dealing with any contemplated changes. The exchange banks do not fear competition by competitors on their own level, but it is easy to see that they could not compete successfully against a State bank with immense sums of public money at its disposal free of charge. Such an institution would have a most unfair advantage over the existing banks. It would create a monopoly in exchange banking, and by its being able to work on terms which the present banks could not touch, have the power to cripple them without having the power to take their place. It would be a distinct disadvantage to merchants in all parts of India that such a monopoly should be created, and that any weakening of the exchange banks should result. (*Mr. Fraser.*) Might I remark that that is a personal note by Mr. Toomey which I have read and endorse.

2622. With which you agree?—Yes, with which I agree.

2623. Your primary objection to the extension of the powers either of the Presidency banks amalgamated or of a new State bank is that it subsidises competition?—(*Mr. Toomey.*) That is so; and we consider it would be unworkable.

2624. You think further that it would be unworkable?—The country is geographically too large.

2625. I understand that observation, from the point of view of meeting the wants of clients and of meeting all the local conditions in so vast an area?—You must have an intimate knowledge of your customers and of trade generally.

2626. That apples to banking facilities for internal use?—If a State bank were to open in London it would necessitate intimate knowledge of the London market too.

2627. In other respects, would the work which the State bank would have to do be vaster than that which has now to be done by the Government of India and the Secretary of State?—Do you refer to the sale of Council bills and the rest of it?

2628. At the present time the Government of India have to make up their minds what currency the country requires?—All that is a very small matter compared with the work which a State bank would have to do.

2629. The management of the currency would not in itself become heavier because it was transfered to a State bank, would it?—No, it would be the same, unless, of course, there was an extension of the currency note issue.

2630. I am rather interested to find a gentleman coming from the business world who really feels that Government can do some things better than a great business concern?—We say that the currency department is exceedingly well managed, that it has taken a long time to work it up to its present position, and that no bank could work it as well. It would take a bank many years to get into the present position that the Government are in as regards that.

2631. I think, from what Mr. Fraser said just now, that every now and then the currency department fails either to provide sufficient currency or to provide it in the place where it is wanted?—(*Mr. Fraser.*) Yes. (*Mr. Toomey.*) To some extent, but we are not making any grievance of that just now.

2632. At the present time who really manages Indian exchange?—The exchange banks.

2633. Not the Secretary of State?—No, he only supplies our requirements for outward remittances.

2634. But he fixes the rate of course?—You cannot say that he fixes the rates for Council bills. He accepts the market rate between 1*s.* $3\frac{29}{32}$*d.* and 1*s.* $4\frac{1}{8}$*d.*

2635. Do you say his influence is confined to keeping it within those limits?—Yes.

2636. (*Mr. Keynes.*) He varies the amount of bills he offers; has that no influence on the rate?—Do you mean the weekly amount?

2637. Yes?—Just now he is offering 20 lakhs a week.

2638. (*Sir Robert Chalmers.*) Suppose he offers 100?—Just now there would be no takers.

2639. (*Chairman.*) But would that not affect the rates?—Of course he cannot sell below 1*s.* $3\frac{29}{32}$*d.*

2640. (*Mr. Keynes.*) At the present moment exchange is very low, but suppose early in the year when it was 1*s.* $4\frac{1}{8}$*d.* he had put up from 100 lakhs to 150 lakhs, would not that have affected the rate at that time?—The rate certainly would have been affected temporarily, unless there was a great extension of exports just at that particular time.

2641. So that the rate partly depends upon the policy he is pursuing with regard to the amount he offers week by week?—Yes; but he as a rule offers the amount which the market is likely to take.

2642. Subject to what the Secretary of State thinks the suitable rate for the time of the year?—He sells them at the market rate.

2643. (*Chairman.*) Does not the demand at any given time depend in part on what the rate is? If the rate is low the demand would be greater than if the rate is high, would it not?—No, that is not so. At this time of the year export business is dull, and consequently exchange falls. For instance, last Wednesday there were only 20 lakhs put up, the market did not want much, the rate was 1*s.* $3\frac{15}{16}$*d.*, and there were very few takers, because India is well supplied with cash at the moment and there is no demand.

2644. (*Lord Faber.*) And India is not exporting at the moment?—Exports are not very active just now. We always see the highest rates of exchange in the busy season, naturally, that is, from January to April.

2645. (*Mr. Keynes.*) If the Secretary of State had issued no bills last week and no bills this week, and said he was not going to sell bills for the next two months below 1*s.* 4*d.*, would that affect exchange?—It might or it might not. It depends on the demand for remittance from India.

2646. It might possibly affect exchange though?—Possibly, but India could really get along without Council bills for a month or two, could she not? (*Mr. Fraser.*) I think so. I think if the Secretary of State were to fix the rate at 1*s.* 4*d.* just now, and say he would not sell below 1*s.* 4*d.*, the people who wanted to remit money to India would simply wait till the last moment, and if they could not get anything better than 1*s.* 4*d.* they would take his 1*s.* 4*d.*, but they would not go to him except as a last resort. (*Mr. Toomey.*) He could not very well establish 1*s.* 4*d.* as the minimum.

2647. If he were to announce that policy, would the rate which the exchange banks charge to their customers be altered?—(*Mr. Fraser.*) We would sell in India below 1*s.* 4*d.* as long as we could, and when we found we could not sell any more then we would come for his 1*s.* 4*d.* (*Mr. Toomey.*) It does not follow that because the Secretary of State would not sell below 1*s.* 4*d.* exchange would be maintained at 1*s.* 4*d.* for a month or two.

2648. (*Chairman.*) I want to draw your attention, with reference to something you have said, to an expression of the views of the Government of India. I have before me a letter from the Government of India to the Secretary of State, No. 56, dated 22nd February 1900.* He was then being sent by the Government of India a memorial from the exchange banks on this very question, and in that memorial, as quoted in paragraph 3 of the letter, it is stated by the exchange banks very much what you have said to-day, that "for the last 40 years they have 'practically " 'financed the whole export and import trade of the " 'country,' while the Presidency banks have devoted " themselves entirely to financing the internal com- " merce." I desire to call your attention to the comments on that of the Government of India. They say, "We cannot for a moment admit the correctness " of this assertion. Though the Presidency banks " have hitherto been prohibited from engaging in " exchange operations their resources (and through " them the resources of the Government also) have " been freely placed at the disposal of all sections of " the commercial community, including the exchange " banks themselves who now imply that they have " financed the whole foreign trade with their own " capital exclusively." Then they proceed to say, " On this point we may let the memorialists speak for " themselves. In December last the associated " exchange banks deputed two representatives (who " are among the signatories of this memorial) to meet " our honourable colleague in charge of the Finance " Department and to urge upon the Government that " any loans made by the Government should be made " equally to the exchange and to the Presidency banks. " When it was intimated that the Government would " be unlikely to depart from their past practice of " giving all loans through the Presidency banks, the " deputation asked that the Presidency banks should " not be permitted to pass on the Government mouey " except to the exchange banks, or at any rate that " the exchange banks should have the first call on it " to the exclusion of local banks and merchants, " European and native. A few weeks later the " Government were suddenly and urgently pressed " by the managers of two of the exchange banks to " advance Rs. 30 lakhs to the Bank of Bombay"—this was written in 1900. "It was represented that unless " the money was forthcoming, there was danger of a " serious commercial crisis, and of an important " failure. The exchange banks, it was explained,

* *See* Appendix XV., page 407.

" would not provide money for their customers, though " money could be obtained in a few hours under Act " II. of 1898, because they objected to buying tele- " graphic transfers at the rate at which your Lordship " was then selling. Sooner than have recourse to this " means of obtaining funds they frankly preferred to " let the crisis come. Happily the crisis was averted, " mainly, we believe, by the action of one of the " Presidency banks." You observe that in that paragraph the Government of India challenges *ab initio* your claim that the exchange banks have successfully and completely financed the external trade of India?—No other body of people have financed the foreign trade of India. Might I look at the first point?

2649. Certainly (*handing letter to Mr. Toomey*)?—(*After reading.*) Neither my friend nor I knew anything at all about this. The paragraph says, "the " associated exchange banks deputed two representa- " tives (who are among the signatories of this " memorial) to meet our honourable colleague in " charge of the Finance Department, and to urge upon " the Government that any loans made by the Govern- " ment should be made equally to the exchange and " to the Presidency banks." We knew nothing about that in London and we should not uphold it.

2650. Sir Shapurji suggests to me that the London offices did repudiate that?—I knew nothing about it. (*Mr. Fraser.*) I was on leave at the time, and I knew nothing about it.

2651. (*Mr. Gladstone.*) You were in India in 1900, were you not?—Not at that time; I did not go out till May 1900. (*Mr. Toomey.*) I was not in India then. We certainly knew nothing about it, and we certainly would not endorse it.

2652. (*Chairman.*) Now look at the last sentence of the paragraph, "The exchange banks, it was " explained, would not provide money for their " customers, though money could be obtained in a few " hours under Act II. of 1898, because they objected " to buying telegraphic transfers at the rate at which " your Lordship was then selling"?—Before that it says, "When it was intimated that the Government " would be unlikely to depart from their past practice " of giving loans through the Presidency banks, the " deputation asked that the Presidency banks should " not be permitted to pass on the Government money " except to the exchange banks, or at any rate that " the exchange banks should have the first call on it." We know nothing about that, and we do not endorse it.

2653. Will you just look again at the last sentence?—I cannot imagine what the deputation consisted of. Certainly, the whole thing would have been repudiated by the London offices of the banks: do you not think so? (*Mr. Fraser.*) Yes.

2654. I pass away from that. Are the exchange banks widely represented throughout India?—(*Mr. Toomey.*) They are fairly well represented. We have a good many branches up-country.

2655. In those branches you are competing with the Presidency banks, are you not?—We have some branches where the Presidency banks are not represented.

2656. But in many cases you would be in competition with the Presidency banks?—To some extent. (*Mr. Fraser.*) As far as the Chartered Bank is concerned, we are only represented in two up-country branches. Our main object in going to Delhi and Amritsar, the only two points at which we are represented, was to foster our Manchester connection, which is part of our exchange business, and our sales of bar gold, which also we consider part of our exchange business. Both Delhi and Amritsar are good markets for gold. (*Mr. Toomey.*) That is practically what we are there for too—financing Manchester business chiefly.

2657. Then you do not consider that you seriously compete with the Presidency banks for the internal business?—No. (*Mr. Fraser.*) As far as the Chartered Bank is concerned, we do not compete.

2658. I was asking you to speak generally if you could?—(*Mr. Toomey.*) Neither of us compete.

2659. (*Sir James Begbie.*) When you say the present system of selling Council drafts is admirably adapted to the requirements of trade, you refer, I presume, to foreign trade?—Yes, to Indian foreign trade.

2660. Would you agree that the export trade forms part of the internal trade before the merchandise which is exported passes into the hands of the exporters?—It is internal trade until it becomes export trade.

2661. And the other way about in the case of imports—the merchandise imported becomes part of the internal trade after it is taken over from the importers?—It becomes internal trade then.

2662. So that the internal trade includes the foreign trade?—They are interwoven.

2663. Is it not included?—They are interwoven with one another.

2664. You expressed satisfaction generally with the system of Council bills sales, I think?—Quite so.

2665. But that was from the point of view of buyers of bills?—We always have to pay full rates for them.

2666. When you expressed this satisfaction it was not from the Government point of view, but it was from the point of view of trade and your own trade?—We do not see any system that could be worked better. We say that the system is admirably adapted to the requirements of trade, that the sales of bills are well handled and in fact that they could not be better sold. We always have to pay the full price for Council bills. They are put up for competition every week and naturally they fetch the highest prices.

2667. It does not matter to the buyers of bills whether the sales of bills are made against the Treasury balances in India, or against the Gold Standard Reserve, or against silver purchases, does it?—It does not matter really to us what accounts are debited with the amounts of these Council bills.

2668. You hold, I understand, that a proportion of the gold belonging to the Paper Currency Reserve should be kept in England?—Yes.

2669. Have you formed any opinion as to the extent of the proportion that should be held here?—No, we would not like to place any limit on it.

2670. Do you consider that there is any danger of the withdrawal of a portion of the reserves to England affecting the credit of the note issue in India?—Do you mean a further withdrawal from India?

2671. No; any withdrawal of the gold reserves from the paper currency department?—No; we think that a certain amount should be held here, and then, in the event of an adverse season, the money here would be available to meet the drafts issued by the Government of India.

2672. The reserve is intended for the redemption of the note issue, is it not?—In an adverse season the notes would be paid in to the Government of India, and they would pay out gold here against the notes tendered in India.

2673. What I wanted to know was whether you think there is any danger of the credit of the note issue being affected by the fact that a part of the reserves was held here?—I do not think so. (*Mr. Fraser.*) It might be so if the amount held here was excessive. Care would have to be taken to see that the amount of gold held here was never unduly out of proportion to the total note circulation.

2674. But you would not say what proportion?—I would hardly care to say at present. I should think think the amount held at present is not too much—it is something like nine crores, I think.

2675. Then you say that when gold is available in India the currency note department should in normal times be prepared to pay out sovereigns readily against notes?—(*Mr. Toomey.*) Yes, but there should not be any obligation.

2676. I am not quite sure what you wish us to understand by the expression "in normal times"?—I think if the Government can afford to give us sovereigns against notes they should do so, but should not accept any obligation to give sovereigns in exchange for silver or notes. In adverse times, of course, the gold would be required for the support of exchange, and the Government might then see the necessity of withdrawing the issue of gold to the people in the country.

2677. Take the present time for example; would you say that gold should be issued at the present time with exchange below par?—Yes, I see no reason why gold should not be given in exchange for notes or rupees. The Government are well able to do so, having a very large amount of gold at their disposal.

2678. With regard to the remarks you made about the Presidency banks, you told us that the Government of India with the approval of the Secretary of State declined to grant the power sought by the Presidency banks. I do not know whether that puts the correct interpretation on the fact. Is it not the case that the Government of India proposed that the power sought by the Presidency banks should be given and the Secretary of State vetoed it?—I accept that.

2679. With regard to what you say about a State bank, it is a little difficult to discuss the matter, because we have got before us no definite proposals for a State bank if there is to be one; but is it necessary to assume that it would be a banking monopoly?—I do not see that it could be otherwise. The State bank would have the advantage of all the Government money at their disposal; they would pay nothing for that money, and so we would be very considerably handicapped.

2680. You say it would virtually mean the establishment so far as the exchange banks are concerned of a banking monopoly?—That is, if they got exchange business, they would drive us off the field entirely.

2681. If they did exchange bank business freely without any restriction?—Or at all.

2682. Supposing the State bank was authorised to remit the amount required to meet the home charges only?—Do you mean that instead of selling Council bills here they should buy bills in India?

2683. Yes?—What bills would they buy?

2684. Bills on London?—What bills?

2685. Merchants' bills, I suppose?—Then they would drive us off the field.

2686. Would they, if they were restricted in amount?—If they bought any sterling bills at all they would be able to quote lower rates than we could.

2687. But only to that extent?—It would ruin the exchange business so far as we are concerned.

2688. You say you think a State bank would not foster the extension of the note issue so well as the Government treasuries; is it not the case that banks are usually understood to be able to foster a note issue better than any Government department?—I should not think that would be the case in India. I do not think the State bank could handle the note issue at all.

2689. If you gave a State bank an interest in the extension of the note issue, would they not be likely to foster it then?—I do not think they would be capable of managing the paper currency department. It would take the State bank years and years to get into the position that the currency department are in now. As I have said, there would probably be a breakdown in the currency arrangements which might be very serious indeed.

2690. (*Sir Shapurji Broacha.*) You have both been managers for a very long time in India, I think?—I have been a bank manager for over 30 years.

2691. And so has Mr. Fraser?—(*Mr. Fraser.*) 17 years.

2692. You have passed most of your time in India in one Presidency or the other?—(*Mr. Toomey.*) I have. (*Mr. Fraser.*) I have been in Bombay and Calcutta.

2693. And you are in daily connection now with India through your branches?—(*Mr. Toomey.*) Yes. We are constantly getting telegrams home and sending them out.

2694. I suppose you get three or four telegrams a day and very long ones too, of the state of the market and so on?—Yes. We are thoroughly acquainted with every move in India in exchanges.

2695. So that, so far as practice and length of experience are concerned, you can give an opinion on Indian finance which will be as good as, if not better than, most people's?—I suppose our opinion is as good as the opinion of other people.

2696. And, of course, the opinion you give will be with a view to enhance the prosperity of India?—We are desirous that the prosperity of India should increase. (*Mr. Fraser.*) What we feel is that our interests are intimately bound up with the prosperity of India. If India is prosperous, the banks are prosperous, naturally.

2697. I think you export a good deal of gold as merchandise?—(*Mr. Toomey.*) Yes, we are regular shippers of bar gold to India.

2698. Amounting, would you say, to half-a-million or three-quarters of a million a month—I am speaking of the whole of the exchange banks among themselves?—I will give you the figures. Last year, 1912, the shipment of bar gold and other uncoined gold amounted to 9,466,000*l.*, in 1911 it amounted to 8,943,000*l.*, and in 1910 the figure was 9,360,000*l.*

2699. Supposing there were a mint, that gold would not go into the mint, would it?—No.

2700. Do you know of any gold exported from a foreign country which would go into the mint?—No.

2701. You would not send gold on your own account to be minted there?—No.

2702. The sovereign would be the cheapest form of gold you could send?—Yes.

2703. Therefore, I suppose, you would say that it would be a waste of money to open a mint for gold in Bombay?—Yes, we say that India can get sovereigns now cheaper than if she had a mint. She gets the sovereigns laid down in India free of cost; that is to say, she only pays 1*s.* 4*d.* for them, whereas we, the banks and other people, pay the freight and charges.

2704. Bar gold goes to India at about 1½ per cent. above the sovereign, taking the sovereign at 15 rupees, because it has to pay the bank's profit and the other charges for exchange purposes?—Yes.

2705. Again, that gold is divided into several chops, and some bank's chops fetch a higher price, as much as a sixteenth higher than others?—Slightly higher at any rate.

2706. Is it your experience that India has sold gold and exported gold sometimes in famine years?—It has done that, but very seldom. (*Mr. Fraser.*) In Bombay, as I think you know, Sir Shapurji, as well as I do, in the famine of 1894 and 1895 when exchange fell very low, India sold rather a large amount of gold which came out of hoards. Whether that was due to famine conditions or to the very low value of the rupee I have never quite made up my mind, but the exchange banks did at that time export large quantities of gold from India.

2707. To England?—Yes.

2708. That came out through the necessities of the people, and partly perhaps because gold had gone up to something like 12 or 15 per cent. corresponding to the fall of silver?—That is so; it was probably a combination of those two causes.

2709. Would you say, therefore, that famine times are the only times when Indian gold would go into the mint?—(*Mr. Toomey.*) Yes, that is the only time. (*Mr. Fraser.*) Under existing conditions any shroff in Bombay, who holds a lot of gold ornaments which he may have collected in various up-country centres, can take those ornaments to the mint and they will melt them and give him the gold in the shape of a gold bar, which he can take away and immediately sell to any exchange bank. Therefore, the mint to that extent is open to gold at the present moment.

2710. When the Secretary of State sells at 1*s.* $3\frac{29}{32}$*d.* that is not breaking the par of exchange, is it?—(*Mr. Toomey.*) No, that is keeping the par.

2711. Supposing there were 30 millions in the Gold Standard Reserve, how much of that would you like to keep in liquid gold?—We would not like to name a figure. There ought to be a fair proportion of that in liquid gold.

2712. What would you call a fair proportion—two thirds?—If you must have a figure, I should say certainly 10 millions. (*Mr. Fraser.*) I prefer 15 millions myself.

2713. In the crisis of 1907–8, when I called on you to ask your views, do you remember that at that time you asked me to bring to the notice of the Secretary of State that he should guarantee exchange

at 1s. 4*d.*, as, under pressure, you were then bringing all available funds from India to here?—It is hardly correct to say we were bringing all available funds. What happened was that merchants used to remit and we could not get exports to balance, therefore not being philanthropists we had to fall back upon somebody.

2714. The point is that you would not have got so much funds as you actually got if you had not that guarantee?—We would not have been asked for that same amount.

2715. Your idea was, let us get the funds over here, and we can meet the loss of $\frac{1}{4}$th afterwards—I take it that that is what was in your mind at that time?—(*Mr. Toomey.*) There was a certain hesitation on the part of the Government in giving us drafts on London and that forced exchange below 1s. $3\frac{29}{32}d$.

2716. That brought about the panicky feeling. Why should you not have, for instance, all the Gold Standard Reserve in liquid gold?—It would be too expensive.

2717. Do you calculate always the expense of a thing when there is a necessity for it?—I think we must always calculate the expense.

2718. Will not 30 millions or 40 millions of liquid gold give an actual security when short-dated securities would not?—We say it would be a waste of interest.

2719. Is that your only argument?—It would be an absolute waste of interest.

2720. Are you not wasting much more money in other directions which you could do without if you got this absolute security?—It would be throwing money away to keep it all in gold.

2721. If we had the same Army and Navy that we had before the Boer War, or at the time of the Boer War, we might have paid off the National Debt by now?—We might not be here at all.

2722. But the nation did not consider interest in that matter; it wanted absolute security?—It would be an absolute waste of good money to keep all that in liquid gold.

2723. Do you think in a time when war, panic and crisis all come jointly, the 20 millions of short-dated securities which you hold would give much confidence? Would there not be the fear that they might be cashed, and that instead of giving cash to the market you would take away some cash from the market?—We can hardly prepare for every eventuality that may possibly occur.

2724. Supposing the taxpayers do not want interest, what would you say to that? Would it be philanthropy, or that they had no sense, or what?—I do not think India should throw away that money.

2725. I will put it in another way; we know that there is very little gold against the vast commerce of this country—in fact, the two are not commensurate?—That is so; the fact is there is not enough gold to go round.

2726. Other countries are losing interest—France, Russia, and the United States are losing interest. Have they less sense than our bankers and our Government about the security or the safety that gold gives?—No. No doubt they have got immense hoards of gold, but it is doubtful whether it is necessary for India to keep all her gold actually liquid.

2727. Do you admit that India has more power to absorb gold than most commercial countries?—Her capacity for absorbing gold is very remarkable.

2728. Is not India's interest combined with the interest of this country?—Certainly.

2729. Supposing India is allowed to collect gold in the Gold Standard Reserve, would there not be a further security to the Empire in a time of crisis?—I am not disputing the fact that it would be better to have the whole of the Gold Standard Reserve in actual gold, but at the same time I do not advocate that because, as I say, there would be a loss of interest.

2730. That is the only way you take it?—That is the only way I take it.

2731. Of course liquid gold would be better?—It is naturally better.

2732. The Bank of Germany has been taking away all the gold that comes from South Africa, and they have taken away about three millions in the last four weeks; why should not India, if she is willing to pay for it and do without this interest for her own safety?—If she wants to do it, let her do it; I do not want to interfere with her.

2733. Do you not think that about two millions more in cash in the Bank of England now would give a little fillip to the rates of interest in the market?—Do you mean two millions of money belonging to India?

2734. No; but suppose the Bank of England had two or three millions more gold from South Africa?—Certainly that would be a relief and an assistance to this market.

2735. Money is getting dearer every day, and there is a great cry for it, is there not? Are you not afraid of that?—It is much better to have stronger banking reserves in London, I admit.

2736. If England were engaged in a war, would it be a greater help to you if the Government of India had 20 millions in securities than if the Government of India had 20 millions in liquid gold? Would you not rather start with the liquid gold, so that the Secretary of State would be free from the necessity of letting the exchange go as it liked?—I can only say it would be a very fine thing if India could keep all that Gold Standard Reserve in gold.

2737. Would it not be better than securities?—(*Mr. Fraser.*) One might almost say that to some extent you would be penalising India for the benefit of the Empire. Of course, if India wishes that, let her do it.

2738. India has petitioned; India has said to the Secretary of State in Council by those through whom she can speak that the people of India want gold?—(*Mr. Toomey.*) That they want the whole of the Gold Standard Reserve to be in actual gold? That is not the widespread voice of India, surely?

2739. Do you not know that the Indian Government asked for a very large sum in liquid gold after their experience of the crisis?—All the same, I do not think there is any widespread wish to keep the whole of the Gold Standard Reserve in actual gold. If there is that desire we should raise no objection to it, if India can afford to throw away the interest.

2740. There was about 20 millions that the Secretary of State lent in this country, you said just now; could he have lent that money in India?—Nothing like it.

2741. Then of course if it had been sent to India it would have been lying waste there, and it would have created an actual monetary difficulty in the market here, because the withdrawing of 20 millions is not a small affair?—What would they have done with the 20 millions in India?

2742. Nothing, I suppose?—Except lock it up.

2743. It would have been locked up and wasted for the time being; whereas it would not only have earned interest over here, but it would have kept the money market here comparatively easy?—Yes.

2744. Is it not the case that all the world likes to keep this market as easy as they possibly can afford to do, because their interests are very much dependent on the bank rate of interest and the London money market rate of interest?—Yes, I follow that.

2745. Suppose the London money market is easy, is it not the fact that there would be more buyers of produce in other countries owing to the cheapness of money, and would not India be benefited to that extent?—Indian trade will not increase merely because the Bank of England rate is rather lower.

2746. If the money market is cheap, and if the bank rate is lower, is it not the case that there are more buyers of luxuries and more buyers of produce from India than when the bank rate, say, is 7 per cent., when there is a difficulty to discount your bills, and when there would be a direct loss to India because she could not sell her produce at better rates?—With a high Bank of England rate the merchant in India has to make various calculations as to the rate at which bills can be discounted, and so forth, which may reduce the price slightly of local produce; but beyond that there would be no contraction of trade.

2747. Would there not follow a contraction of trade if the money is kept here and if the money here

is dear? You would not be very prodigal of sending money to India then, and that would create an export difficulty to a certain extent, would it not?—The trade of India, whatever it is, must go on whether the Bank rate is low or whether the Bank rate is high.

2748. That is right; I agree that it must go on. But take wheat, for instance; if it is only worth four rupees, do you think the same export would continue as when wheat was worth five rupees; do you think it would be bought to the same extent when it can only be financed with very great difficulty as it would when it could be easily financed?—I cannot conceive of any great difference.

2749. It is no benefit, is it, to make an artificial stringency here by taking away money to India which is of no use there?—Certainly it is no use taking money away from us and putting it down at Bombay where it is not wanted. The lower the bank rate here the better it is for the Indian merchant, because then he is able to sell his bills at a better rate than he would otherwise.

2750. You said just now that the export and import trade is interwoven, therefore you know how the Government of India can give facilities by lending money during the export season as they do here?—Yes. There is no reason why the Government should not lend its surplus balances in India.

2751. In a time when there is more money here and less in India, and therefore in a time when the Government of India could not lend for the benefit of India, do you think the Secretary of State might transfer some funds there?—There is no reason why he should not, if the Government happens to be hard up in India. At the same time there is a very limited field for lending money in India. (*Mr. Fraser.*) Outside the Presidency banks there could be no large borrowers with the security that would be required by the Government of India.

2752. Would the proper course be to lend through the Presidency banks?—We would concur in that view.

2753. At a lower rate of interest?—They must make a profit for the risk.

2754. That interest should be automatically lower than the bank rate as long as the money is used through the Presidency banks?—(*Mr. Toomey.*) Quite so.

2755. Does it make any difference to India if we keep a portion of the gold here and a portion of the gold there?—No, I think not.

2756. There is sufficient there in case of necessity?—Quite so.

2757. Would you say that the safest place for the Gold Standard Reserve is England?—Yes.

2758. Because you could make no use of it in India except for the purposes of exchange at certain times?—Quite so. It should be kept where it is likely to be wanted, which is London.

2759. Are you in favour of the Secretary of State guaranteeing the exchange at 1*s.* 4*d.* and not allowing it to go below the parity of 1*s.* $3\frac{29}{32}$*d.*?—If you mean that the Secretary of State should intimate that he will protect exchange under all circumstances, yes.

2760. Do you think there is a redundancy of silver currency in India now?—I do not think so. As I have pointed out, sometimes there is a scarcity of rupees. I have some tables here which may be of interest to the Commission. We instructed our branches some time ago to get an exact account of their receipts and disbursements of currency notes, silver, and gold, and I have the information summarised here. The manager of our Calcutta branch reports that his receipts included 90 per cent. of currency notes, $9\frac{3}{4}$ per cent. of rupees, and only $\frac{1}{4}$ per cent. of gold. Those are his receipts for four weeks.

2761. (*Sir James Begbie.*) What were the dates of those?—10th May, 17th May, 24th May, and 31st May; they were four weekly statements.

2762. This year?—Yes.

2763. Is this a branch of your National Bank?—Yes.

Bombay reported*:—

Currency notes	$98\frac{1}{8}$ per cent.
Rupees	$\frac{7}{16}$,,
Gold	$1\frac{7}{16}$,,

Madras:—

Currency notes	$95\frac{13}{16}$,,
Rupees	$3\frac{13}{16}$,,
Gold	$\frac{3}{8}$,,

Karachi:—

Currency notes	$97\frac{1}{2}$,,
Rupees	$1\frac{7}{16}$,,
Gold	$1\frac{1}{16}$,,

Delhi:—

Currency notes	27 ,,
Rupees	$36\frac{1}{4}$,,
Gold	$36\frac{3}{4}$,,

Lahore:—

Currency notes	$85\frac{5}{16}$,,
Rupees	$8\frac{1}{16}$,,
Gold	$6\frac{1}{8}$,,

Cawnpore:—

Currency notes	$29\frac{1}{8}$,,
Rupees	$38\frac{1}{4}$,,
Gold	$32\frac{5}{8}$,,

Amritsar:—

Currency notes	$61\frac{3}{4}$,,
Rupees	$20\frac{3}{4}$,,
Gold	$17\frac{1}{2}$,,

The next branch on my list is Cochin, and it is a remarkable fact that in Cochin gold is very freely taken:—

Currency notes were only	4 per cent.
Rupees	13 ,,
Gold	83 ,,

Then at Tuticorin, which is quite near to Cochin, you have this extraordinary difference, that the notes represent $73\frac{1}{2}$ per cent., the rupees $25\frac{1}{2}$ per cent., and the gold 1 per cent.

2764. (*Sir Shapurji Broacha.*) They are almost neighbours in regard to their geographical position, are they not?—Yes.

2765. (*Chairman.*) Can you give any explanation of the wide discrepancy between those two neighbouring places?—It is impossible to say.

2766. There is nothing in the nature of the trade that would explain it?—No; I think it is more in the nature of the native. I have the receipts for three other branches here; they are—

Chittagong:—

Currency notes	$6\frac{9}{16}$ per cent.
Rupees	$93\frac{1}{4}$,,
Gold	$\frac{3}{16}$,,

Rangoon:—

Currency notes	$91\frac{9}{32}$,,
Rupees	$8\frac{5}{16}$,,
Gold	$\frac{1}{32}$,,

Mandalay:—

Currency notes	$46\frac{2}{3}$,,
Rupees	$53\frac{1}{3}$,,
Gold	nil ,,

One thing that comes out rather strongly in this table is the small amount of gold wanted in the Presidency towns and the large percentage wanted at up-country places.

2767. (*Mr. Keynes.*) Are those actual amounts or only percentages?—They are percentages that I have been giving you.

2768. (*Mr. Gladstone.*) Could you give the average percentage of the whole?—The average of the percentages of the whole of the 13 branches I have given you is, currency notes 62 per cent., rupees 24 per cent., and gold 14 per cent.

2769. (*Sir Robert Chalmers.*) We should like to get the figures in their proper perspective. As they stand now, one branch may be speaking of a million pounds and another of a hundred thousand pounds. If you would imagine that the actual figures from each branch were separate items in one central account, and if you would kindly add up all the gold amounts in one total, all the rupees in another, and all the notes in a third,

* *See also* Appendix XVIII., pp. 541-2.

and ascertain the percentages of those three totals, we should be able then to get percentages which would be adjusted and properly weighted?—I will do that.*

2770. (*Sir Shapurji Broacha.*) Now in regard to a State bank, the Presidencies are very jealous of the credit of their merchants, and the people in Calcutta might not do justice to the requirements of the Bombay people, but unless they had the power of committing Bombay there could be no central government?—That is so.

2771. The percentages you have given us show that although gold is free now, it is not used much in comparison with rupees?—That is so in the Presidency towns and large places.

2772. As you know, all the trade in India is done in cash, and I think they are short of rupee coinage, although they prefer rupees?—Very often they are short of rupees.

2773. At present, I think there is only half a rupee per head in the Currency Department?—That may be so.

2774. That is very little for the people of India. Do you know that in France, even in the Currency Department, there is something like nine rupees a head in silver, let alone gold, and that in Germany it is something like three rupees a head; so that half a rupee per head in the Currency Department in India is very little?—Of course, India is a very much poorer country, or rather the bulk of the population are very poor.

2775. The poorer the country the fewer instruments of credit they have, and therefore they require more cash to circulate among them, as all their transactions are much more on a cash basis?—Yes, that is so.

2776. (*Mr. Keynes.*) From the figures you have read to us I got the general impression that where notes were not much used both rupees and gold were used more than elsewhere; do you think that sovereigns in the Punjab mainly compete with rupees as a form of currency or with notes?—With rupees. (*Mr. Fraser.*) I agree with that.

2777. In those figures you gave us it was the case, was it not, that where the gold was used in a high percentage, the notes were used in a low percentage?—(*Mr. Toomey.*) In some places where there is a currency office, notes are freely taken; they are not so freely taken where there is no currency office.

2778. Would you say that they use gold in the Punjab a good deal because they have not got into the habit of using notes, or is it for a different reason?—In some places they have never used notes to any extent, and they are taking sovereigns now in place of rupees.

2779. In other parts of the country, as they give up rupees, they take notes instead of rupees?—Yes; there has been a great expansion of the note issue, and one reason for that expansion is the making of the 10-rupee note universal.

2780. Would you prefer that the rupees should be replaced by notes as they have been in Bengal, or by sovereigns as they are being in the Punjab?—(*Mr. Fraser.*) I should not say that notes have replaced rupees in Bengal. The whole of the vast jute trade in Bengal is practically financed in rupees, and there is very little object in sending notes to Bengal because they do not want them. Then the rice crop in Burma is almost entirely financed by hard cash.

2781. I was not speaking of that, but I noticed that in the figures Mr. Toomey gave, Calcutta had a very high percentage of notes?—That refers to Calcutta as a town, and not to the district.

2782. Is that a more desirable tendency than the tendency in the Punjab, or a less desirable one?—I should prefer to see people taking notes to gold or silver; do you not agree? (*Mr. Toomey.*) Yes.

2783. Sir Shapurji asked you how much liquid gold you thought there ought to be in the Gold Standard Reserve, and you, Mr. Toomey, I think, gave 10 millions as the sort of figure you had in your mind, and Mr. Fraser thought about 15 millions?—That is so.

2784. Are those figures contingent in any way on the amount earmarked in the Paper Currency Chest?—That figure was given on the present figures of the Gold Standard Reserve.

2785. Was it on the assumption that there were about six millions in the Paper Currency Chest?—Are you talking about the Paper Currency Reserve along with the Gold Standard Reserve just now?

2786. I am asking you whether you made any assumption as to the amount held in London in the Paper Currency Chest when you gave 10 millions as the right figure for the Gold Standard Reserve?—No. We took the Gold Standard Reserve as a separate thing, and said that there ought to be 10 millions out of the present holding in the Gold Standard Reserve.

2787. You think that figure is entirely independent of the amount of gold held elsewhere?—Yes; we do not take other figures into account.

2788. Even if the Secretary of State held 10 millions in liquid gold in the Paper Currency Chest, would you still think that he ought to hold 10 millions in the Gold Standard Reserve?—What we say is that the Gold Standard Reserve amounts to about 22 millions sterling, and out of that there ought to be at least 10 millions sterling held in actual gold; Mr. Fraser says 15 millions.

2789. But why?—Because we want to see the Gold Standard Reserve absolutely strong.

2790. I suppose your object would be in order that the Secretary of State should have liquid resources that he could put his hand on; or would you have any other reason? If he has other liquid resources, would not the amount wanted in this particular reserve be less?—(*Mr. Fraser.*) The point in connection with the gold in the Paper Currency Reserve is this—that it is not earmarked, and that it would have a tendency, as it has at the present moment, to dribble quietly away.

2791. I am speaking of the gold in the Paper Currency Chest in London?—If you lay down a rule that you are going to have a certain amount of gold in the Paper Currency Chest in London, you could, of course, take that into consideration in gauging the amount you would have in your Gold Standard Reserve, and to that extent you could bring the two together.

2792. When you gave 15 millions as the right figure for the Gold Standard Reserve, were you assuming that about the present amount, namely, six millions, would be held in London in the Paper Currency Chest?—Yes.

2793. If that was increased, then you would not want so much in the Gold Standard Reserve?—(*Mr. Toomey.*) The amount in the Paper Currency Reserve in London is a fluctuating quantity. (*Mr. Fraser.*) It is merely the first line of defence in the matter of exchange as it stands at present, but it is only the first line of defence really as long as it remains in London, because whenever it is in India it has a tendency to dribble away, and it is usually not there when it is wanted.

2794. If the policy was followed of having a good deal of gold in that reserve in London, would that influence your opinion of the amount that ought to be held in liquid form or in the most liquid form in the Gold Standard Reserve?—To some extent, yes. You can never have a large amount here because, as Sir James Begbie brought out, if you have an excess amount of gold here against your note issue in India, then you run the danger that you cannot redeem your notes, because you have your reserve in London, while your liability is in India. Therefore, the amount at which you can place your gold in London against your notes must always be limited in my opinion.

2795. But it might be somewhat larger than it is now?—It might be, but that is a point which would have to be gone into very carefully, and I should think the Government of India's Currency Note Department would be very well able to form an accurate opinion as to how much could be done with safety.

2796. If it were found to be safe to have a certain amount of gold in London, would you say then that that amount ought to be taken into account in fixing the amount of gold in the Gold Standard

* *See* Appendix XVIII., pp. 541-2.

Reserve?—You should certainly make allowances for it. As soon as it began to disappear, then it would be about time to begin selling your securities, I should think.

2797. In the course of your evidence you have suggested that the Government of India should lend money in India to the Presidency banks?—(*Mr. Toomey.*) Yes.

2798. In 1900, when there was a suggestion of that, the exchange banks put in a claim to have a certain share of that money?—They did.

2799. But you do not endorse that?—(*Mr. Fraser.*) We do not endorse it. (*Mr. Toomey.*) We say the money should be lent to the Presidency banks only. If we want money we should apply to the Presidency banks, and they could make their 1 per cent. or whatever it was out of it. (*Mr. Fraser.*) We have no grievance against the Presidency banks as lenders; we have always found them reasonable. I speak from my own experience. (*Mr. Toomey.*) I say the same thing.

2800. I only wanted to get that point plain, that you did mean us to infer from your answer that the exchange banks were making no claim to have money lent to them in India direct?—No, they make no such claim. (*Mr. Fraser.*) I might say that the manager of one of the foreign banks in London, in writing a personal note to myself on our evidence as detailed in our memorandum, said that he thought the Secretary of State's approved list might be enlarged so as to bring some of the foreign banks into it, provided the foreign banks could put down the security asked for. I merely thought it right to mention that.

2801. That was referring to the approved list for loans in London?—For loans in London only.

2802. (*Lord Faber.*) You have told us, I think, that it is not always easy to change gold into rupees?—(*Mr. Toomey.*) I gave you one instance of that at Delhi.

2803. Can you always do the converse—change rupees into gold?—There is no obligation on the part of the Government of India to give gold out in exchange for rupees. At present the people of the country can tender rupees and get gold, but I do not think it would be advisable for the Government of India to enter into any obligation of that character; you would get on to a gold currency at once.

2804. With regard to exchange, am I right in thinking that if the balance of trade is in favour of India then England must pay that balance by buying Government bills or by exporting gold?—Practically.

2805. Is the balance of trade generally in favour of India as against the world?—Yes.

2806. India has a credit account?—It is generally in favour of India, except at such times as when we have a famine.

2807. Like England India is a creditor country and not a debtor country?—It is a creditor country.

2808. You will agree with me, I think, under those circumstances in thinking that India will not want as much gold, being a creditor country, as it would if it were a debtor country, because the ultimate balance of foreign trade has to be settled in gold?—That is so. If India was not so successful she would take less in the form of remittances.

2809. (*Mr. Keynes.*) I come now to the question of the proposal for a State bank. You stated in your evidence that the establishment of such a bank would result in a banking monopoly: do you mean by that that the exchange banks would be almost driven out of existence?—They would.

2810. Would your objections be met to any appreciable extent if the State bank were precluded from accepting deposits in London—outside India?—(*Mr. Fraser.*) That would not help. (*Mr. Toomey.*) No, that would not help the situation at all. (*Mr. Fraser.*) I do not think the central bank would ever come here for deposits. Our deposits in London are not such an all important item in our business, and I do not think they would come here and compete.

2811. Am I to understand then that the exchange banks do not regard it as an important part of their business to attract funds in London and use them in India for financing trade?—(*Mr. Toomey.*) We take deposits in London, and we certainly look upon that as an important factor in our business.

2812. That part of your business would be left untouched?—Yes, but it is not such a very large item. (*Mr. Fraser.*) The question, of course, is a central bank with power to borrow in London. The assumption is that they would either offer the same rate as we do or a better rate, and the chances are that they would offer a better rate than the exchange banks in all probability, having regard to the fact that they have the backing of the Government.

2813. If the State bank were precluded from attracting deposits outside India would that remove your objection?—(*Mr. Toomey.*) No, not at all. (*Mr. Fraser.*) Certainly not.

2814. Your reason for this answer is that that part of your business, namely, attracting funds in London for financing Indian trade, is not an important part of your business; is that it?—(*Mr. Toomey.*) We say that if the State bank had a London office and did exchange business we would be driven off the field.

2815. I understand you to say that, and I am trying to get at your reasons for saying it. I have pointed out one part of your business which would be unaffected, and I understand your answer to be that that is not an important part?—The London deposits are not so very important.

2816. (*Chairman.*) In speaking of London deposits, do you mean English money or United Kingdom money?—Yes.

2817. (*Mr. Keynes.*) You would, therefore, lay no stress upon the claim which has sometimes been made by the exchange banks that they play a most important part in financing Indian trade by attracting funds in London for that purpose?—We do not make a point of that.

2818. Suppose that the State bank were limited in its dealings in exchange to remitting about the amount the Secretary of State required, say, 25 millions a year, would that modify your objections?—It would not modify our objections in the slightest degree. If they were allowed to operate in exchange at all, the results to the exchange banks' business would be very serious.

2819. If they remitted merely the balance of trade, that would only be a fraction of the total trade—shall we say one-fifth?—If they were quoting rates of exchange, they would be able to quote much better rates than exchange banks could.

2820. Why should they wish to do so? They would probably wish to remit money to England at as favourable a rate to themselves as they could?—If they were to enter the exchange market it would be practically all up with our business.

2821. I do not understand why you assume that they would force the rate of exchange down?—They would have to quote better rates than the exchange banks, and we would have to sit out.

2822. Would they affect you more than the establishment of a new exchange bank, which attracted, say, one-fifth of the business?—We do not object to other banks starting, if they have got to start on the same footing as ourselves.

2823. Would you be wiped out by a bank which was restricted to doing no more than one-fifth of the business?—One-fifth of what business?

2824. One-fifth of the remittance business?—If a new bank were to start in the same way as we have had to start, they could only quote about the same rates as we do, and they could not cut under our rates; but a State bank could do business with no profit at all. (*Mr. Fraser.*) We have a very good illustration of that in the Reichsbank in Germany. When the Reichsbank wants to influence exchange it is not a matter of profit or loss; they operate, and the other banks stand still and look on.

2825. That is, when they wish to attract gold?—It would be the same thing with a State bank in India. When the Secretary of State wanted remittances from the Government of India, the State Bank would go on remitting to him, and we should not be able to enter the market and buy because it would not be a question of profit with the State bank.

2826. At present the Secretary of State stands out for as good a rate as he can get, does he not?—We do not admit that. He takes the market rate.

2827. He does not undercut the market rate; he does not ruin the market?—Certainly not.

2828. Why should a State bank act very differently, and have a very different effect on the market, from the Secretary of State, supposing it were remitting to the same amount?—The central bank would have to operate in India, and they would have to undercut and reduce rates until, we argue, there would be no profit left in exchange and we would have to go out, because there would be nothing left for us. You can only work an exchange business to make a small profit — the profit is small, and it is the turnover that makes the money. If that profit disappears, and you have not got anything to work for, you would naturally go.

2829. The State bank would have to offer a rate which would enable it to get 25 millions' worth of bills in the course of the year?—Yes.

2830. For getting those bills it would want as high a rate as it could get?—(*Mr. Toomey.*) They would not bother about any particular profit. (*Mr. Fraser.*) They are working with funds that cost them nothing to start with.

2831. Your view is that the State bank would not work for a profit and so would ruin your business?—Would ruin our business by undercutting.

2832. I think I understand your opinion now. The arguments against the State bank given in your memorandum do not touch, I think, all the points which might be raised in favour of a State bank by an advocate of such an institution, and I want to put to you one or two of the other arguments which might be used in favour of a State bank, and ask you what your feeling would be in regard to those arguments. The first point is in regard to Government balances. This year, during the earlier part of the year, the Government had in its reserve treasuries something like seven millions apart from large sums in other treasuries; it has been held that while it might lend a small part of that to the Presidency banks it could not lend to private institutions any very large part of the seven millions?—(*Mr. Toomey.*) They would not be called upon to lend any very large sums; the securities do not exist.

2833. The point is that they could only lend to private institutions on security?—Quite so.

2834. The private institutions could not offer much security of a suitable amount, and therefore there is a strict limit to the amount that they could lend to the private institutions?—Yes.

2835. If there were a State bank those difficulties would be somewhat removed, and instead of having the independent Treasury system, they could then pass not the whole but a very much larger part of their balances into the hands of the bank?—(*Mr. Fraser.*) To be lent on what — on general business?

2836. To be lent on general business?—Without restriction?

2837. I do not say without restriction?—I should be sorry to think that the Government of India's balances would be lent out without very drastic restriction.

2838. I am putting this point, that in nearly all the countries of the world the Government has a banker?—That is so.

2839. That is to say, there is a State banker with which it leaves nearly all its money; in India that is not possible because there is no State bank?—We of course argue that geographically the country is not suited to a State bank, and it never can have one.

2840. (*Sir Robert Chalmers.*) In the Presidency banks may it not be said to have State banks already?—(*Mr. Toomey.*) We say that India has got practically three State banks already.

2841. (*Mr. Keynes.*) But being private institutions, they cannot receive more than a small amount of Government money. Do you think it would be *pro tanto* an advantage in a State bank that more Government money could be placed with it?—Do you mean it would be a greater advantage if the Government placed larger sums with the existing Presidency banks?

2842. It would be an advantage if they could; but they cannot, because these Presidency banks are private institutions?—(*Mr. Fraser.*) We suggest that one way of getting over the difficulty is to lend the Government funds beyond the agreed-upon amounts to the Presidency banks against security.

2843. But, on the other hand, I gather from you that the amount of such security forthcoming is small?—The Presidency banks can always put down, I should think, as much as they want in that respect.

2844. Do you think, therefore, that large sums could be lent against security to the Presidency banks?—I should think the position of the Presidency banks is such that they could always borrow on security all they could reasonably require.

2845. Five millions?—I should not like to say what the actual figure was; but I should not think India is ever likely to want five millions. We do not admit that there is a need for further banking facilities in India. As a matter of fact, for a large portion of the year we cannot use our money there; at the present moment the Bank of Bengal rate is 4 per cent. and we cannot get 2 per cent. in Calcutta for call money, or even 1½ per cent. there.

2846. Do you think it would be an advantage if in the busy season more money was available in India?—I think it would be, but then it would not be such a very large amount that would be required. I should think that two or three crores more on the Indian money market would mean the difference between poverty and the other thing. The very suggestion that you were going to lend two or three crores would bring out the Shroff's money and other money, and that would relieve the stringency.

2847. Do you think that if two or three crores of rupees were lent the high bank rate in the busy season would disappear?—I should think so. (*Mr. Toomey.*) Two or three crores will go a long way towards making the market easy.

2848. Your estimate seems optimistic?—(*Mr. Fraser.*) We speak from practical experience. We cannot employ our money now in India at a profit; it is simply lying idle. You will understand that, when you consider that the mills in Bombay can get money all the year round, and have got it, for 4½ per cent. per annum.

2849. Would they not be prepared to do that here for the whole year round?—No; the Manchester mills cannot get it on the same security.

2850. I was not, however, speaking of all the year; I was speaking of three months, the busy season?—Money at that time runs up and a very large number of merchants make special terms, so the rate is not regulated by the bank rate.

2851. Am I to understand that a sum of two millions sterling lent during the busy season would be sufficient to prevent the Indian bank rate from rising to any high level?—It is difficult to state definitely that it would, but I should think, judging by the experience of the past, that two to three crores of rupees would make a great deal of difference. The past season has been an exceptional one, and there has been a lock-up of money in Bombay in opium, and a very large lock-up. (*Mr. Toomey.*) And in cotton too. (*Mr. Fraser.*) And in cotton, because cotton did not go forward owing to difficulties on the Continent. These two factors have very largely contributed to the present position. There is also a considerable amount locked up at the moment in yarn. Therefore, although there has been rather a high rate this year, which was more stringent in Bombay than in Calcutta, there is no reason to suppose that is going to occur next season. The tendency before that was for money in India to come down steadily in value, and I think Sir Shapurji will confirm my view that money will tend to become cheaper year by year in India.

2852. (*Chairman.*) But it runs up to 7 per cent. or 8 per cent. in the busy season?—(*Mr. Toomey.*) It has not been above 8 per cent. for the last five years.

2853. When you say three crores would make a considerable difference—I do not want to make you

speak with more confidence than you feel—do you mean it would probably keep the rate from going above 6 per cent.?—(*Mr. Fraser.*) I should hardly like to say that, but I think it would mean all the difference between stringency and the other thing. I think a 6 per cent. rate in India is not at all burdensome to anybody.

2854. (*Mr. Keynes.*) Do I gather you would feel there would be no advantage in a State bank if it had the effect of lowering the rate of interest in India below 6 per cent. in the busy season?—(*Mr. Toomey.*) I think there are very few complaints in India as to a bank rate of 7 or 8 per cent. At that time the merchants are all making money and they do not complain of these rates.

2855. Would you say a 7 or 8 per cent. bank rate would help you?—It does not hurt anybody.

2856. It does not hurt anybody?—Not for the two or three months. (*Mr. Fraser.*) If you make money very cheap the native hangs on to his produce and speculates on his produce, and I do not think the merchant or exporter would thank you very much for that.

2857. The arguments which I suggest to prove that the existence of a State bank might have the effect of lowering the bank rate do not impress you very much because you do not regard it as an object to reduce the bank rate?—(*Mr. Toomey.*) We do not like to see money too tight, of course, but we do not look upon a bank rate of 7 per cent. as out of the way in the busy season. (*Mr. Fraser.*) One would not object if the bank rate never went over 6.

2858. I go now to a point connected with this, but rather different. In the past there have often been banking crises in India, but not within the last ten years, I think?—(*Mr. Toomey.*) Was there any banking crisis ten years ago?

2859. There has not been a crisis for at least ten years or more?—Not for a good many years.

2860. Within the last ten years there has been an extraordinary growth of deposit banking in India?—Yes, and the resources of the exchange banks have steadily grown.

2861. The figures published in the official statistics are that the Indian deposits of the exchange banks in 1901 were 7,900,000*l.* and in 1910 16,200,000*l.*?—There has been a steady growth of deposits.

2862. Their cash resources in that same period increased from 2,200,000*l.* to 2,900,000*l.*?—Those figures do not explain everything.

2863. I should be much obliged if you would amplify them?—We always have a lot of money on the way out in the shape of Council bills. (*Mr. Fraser.*) And sovereigns too. (*Mr. Toomey.*) Sovereigns from Australia, London, and so forth. (*Mr. Fraser.*) I might say that in the figures we recently gave to the Government of India, speaking for the bank I represent, we did not include three-quarters of a million sovereigns arriving within a week of the figures being published, which we, to a certain extent, of course, regard as cash. These are largely imported against our purchases of exchange, and we probably, in anticipation, have used up some of our local cash resources to meet our exchange commitments, and then the sovereigns come in and fill up the cash.

2864. Do you mean that on the particular day on which you made up your books you had less resources in India than you have usually?—(*Mr. Toomey.*) No. (*Mr. Fraser.*) At that particular moment we might have almost included these sovereigns as cash.

2865. I can understand that you have money coming in, but I suppose you also have money going out in the immediate future? If your books were made up a fortnight later, would they have shown a better result?—Not having the facts before me, I should not like to make a definite statement.

(*Mr. Gillan.*) Are these figures you are quoting, Mr. Keynes, the figures of a particular day or averages?

2866. (*Mr. Keynes.*) They are figures I have taken from the statistics of British India, and no statement is made as to the date?—I believe the dates given are 31st December in each year.

2867. I do not want to press this point; all I want to call attention to is that the Indian deposits have very greatly increased?—(*Mr. Toomey.*) Yes, they have.

2868. There is an important class of joint stock banks that have grown up in India, and their deposits have increased even more than those of the exchange banks?—(*Mr. Fraser.*) They have increased enormously.

2869. Those banks keep very small cash reserves against their deposits?—(*Mr. Toomey.*) Very.

2870. So that apart from the Presidency banks the deposits in India are perhaps three times what they were ten years ago?—That may be. I accept those figures.

2871. With no corresponding increase of cash?—(*Mr. Fraser.*) I should not like to make a definite statement on that point, not having any figures before me. I admit the enormous growth of these Swadeshi banks, as we call them, and the enormous growth in their deposits. It has been openly stated in some quarters, but I have not verified the facts, that their cash balances are not adequate.

2872. What is the relation of these banks to the Presidency banks; do they have sums on deposit with the Presidency banks to any important extent?—(*Mr. Toomey.*) I should think not. (*Mr. Fraser.*) I should think not too.

2873. Do they include in their cash sums left with the Presidency banks, or is it all free cash?—I should think the cash at the Presidency banks is taken as cash.

2874. Is that an important part?—I could not say.

2875. In the case of the exchange banks do they keep any appreciable sum with the Presidency banks?—Yes.

2876. Do they include that in their cash?—Yes.

2877. The position is, therefore, that to a quite important extent the Presidency banks act as bankers' banks?—That is so.

2878. And there is not much free banking money in India outside the Presidency banks?—Not in the busy season.

2879. I want to put to you whether you think that the Presidency banks, taking account of this great growth of deposit banking, are really in a strong enough position to act as bankers' banks?—Assuming they get the facilities from the Government that have been suggested, I think so.

2880. But under existing conditions?—If you can imagine a banking crisis when everyone was pulling on the Presidency banks, I should say they probably would not be able to meet the requirements of everybody.

2881. How do you feel in regard to these figures; in 1910 the total deposits, excluding public deposits, in India were about 55 millions?—What does that include?

2882. That includes the exchange banks, the private deposits with the Presidency banks, and those Indian joint stock banks which have more than five lakhs of paid-up capital and reserve; the deposits were about 55 millions, and the cash in the Presidency banks was 7½ millions?—(*Mr. Toomey.*) That is quite an ordinary average working balance.

2883. Supposing there were to be a banking crisis in India everybody would go to the Presidency banks for money?—(*Mr. Fraser.*) The exchange banks would probably call upon London, I should think, and take Council telegraphic transfers.

2884. I wanted to get out that point: The exchange banks would rather rely in the next banking crisis on being able to remit large sums from London?—I do not say we would rely upon it, but if the necessity were forced upon us—— (*Mr. Toomey.*) We should have to ship sovereigns or take Councils.

2885. Suppose you had to ship sovereigns and to do this to a large amount, because your total deposits in India must be now something like 20 millions, do you think you would find it easy to rediscount your bills and to raise money in London?—(*Mr. Fraser.*) We could always discount at a rate.

2886. If you wanted to take the money out in actual gold, not at an ordinary time but at a moment

of crisis, do you think it would be easy for you to do that? — (*Mr. Toomey.*) I see no difficulty about it. (*Mr. Fraser.*) You must also assume that in those conditions the Secretary of State has no balances on the other side, and will not sell Council bills.

2887. I am taking this alternative first, that you had to send out sovereigns; do you think the exchange bankers would have no difficulty in raising in actual gold a very large sum in sovereigns in London at a time of crisis?—I should think not. If you assume they could not do it, then of course you stop the export of gold. If you are assuming that we cannot get sovereigns, you mean that we are no longer a free market for gold.

2888. I assume they could get gold if they had free resources, and you think there would no difficulty in their obtaining free resources?—We are all constituents of the Bank of England, we know the bills the Bank of England takes, and the Bank of England always discounts bills for its customers. There is no reason to suppose they would not stand by us if we wanted accommodation.

2889. The other alternative would be that you should buy large sums in telegraphic transfers from the Secretary of State?—That is what we should naturally do assuming he had money on the other side, which he probably would have, because if he could not draw on his Treasury balances he would probably draw on his Currency balances in an emergency.

2890. Then you are rather relying upon him to use his Currency balances to relieve India's banking in a crisis?—We are not relying on that, but we are assuming that in these conditions he would have those means of meeting those drafts.

2891. Would you feel in a stronger position if the whole business were more centralised—if the Secretary of State's balances and the bankers' balances, instead of being kept in various places and by various authorities, were all kept in a State bank which would be under a certain responsibility to look after a situation of this kind?—(*Mr. Toomey.*) I do not think a State bank would look after the situation any better than we can under existing circumstances. (*Mr. Fraser.*) I should think the Presidency banks worked in conjunction with the Government would be quite as powerful and as good an influence as any State bank.

2892. Do you assume that they would have to work in conjunction with the Government?—They always have, and they always would, I think, in the event of a crisis, work in conjunction with the Government. Assuming such a crisis as you are picturing, which has never exactly come about, but assuming such a one ever did—we have not seen it, but of course we admit it might come—the danger is that India is going rather fast in the matter of banking, and new banks are springing up every day. I have only taken out 14 of what you might call the leading Swadeshi banks—the figures are not all for the same date—and they show a capital of 2 crores 41 lakhs paid up, and deposits of 24 crores.

2893. The main point I am putting to you is this—that when the last banking crisis came in India, deposit banking was in its infancy there?—(*Mr. Toomey.*) There were very few local banks then. (*Mr. Fraser.*) That is so—very few.

2894. There has been an enormous increase in their number, particularly in the last 10 years?—(*Mr. Toomey.*) Yes.

2895. More particularly in the last five years; and the increase is still going on?—(*Mr. Fraser.*) Yes.

2896. So you have no experience as to what would happen if there was a banking crisis in a country where large deposits are now being made and which has not forgotten the habit of hoarding?—I should think that if a banking crisis such as that developed there would be a very serious run on some of the banks. The chances are probably that the old-established banks which have stood the storm and have got a reputation would not be run upon. I cannot say that I remember a run upon our own institution.

2897. You have a rapid growth of deposit banking, and a good deal of it in banks which have never stood a severe strain?—That is admitted, I think.

2898. And which have also no very high proportion of cash reserves?—I should think that some of what you might call the local banks do keep adequate reserves, but there are probably many of them that do not. I would not like to speak about that with absolute certainty. Such banks as the Alliance Bank of Simla, for example, and the Allahabad Bank have always stood very well, and been conducted, I think, on prudent lines; but there are others possibly that have not been.

2899. Further, there is no central banking reserve of any sort, such as the State banks of Europe have?—That is so, unless you accept the Presidency banks as occupying that position.

2900. And also there is no sort of mechanism whatever for any sort of emergency currency or for any expansion of the note issue?—(*Mr. Toomey.*) Only the Gold Note Act.

2901. It can only be expanded against rupees or notes?—(*Mr. Fraser.*) Against rupees or the deposit of gold. We can put down gold here and get notes issued in India, or rupees.

2902. All the Government can do is to exchange one form of currency for another: they cannot increase the amount of currency?—Except by fresh coinage.

2903. So that all the usual precautions which are taken by European countries that have deposit banking against a crisis are incompletely existent in India?—You mean in regard to such precautions as expanding the currency in the event of a crisis?

2904. And having a central reserve?—As regards expanding the currency in India, the people want cash, not notes.

2905. I am not saying that ought not to be given, but I mean that as that possibility does not at present exist, it is all the more important that the other sorts of precautions should be taken?—The other precaution being to centralise your reserves?

2906. Yes, and having some important authority which looks at the situation as a whole?—We would leave that to the Presidency banks working in conjunction with the Government.

2907. You do not think that a State institution, which was in the habit of working in conjunction with the Government, and did not have to fit up some patch-work arrangement in a moment of crisis, would be in a better position to deal with a situation of that sort than a State bank?—Has your State bank solely to deal with the crisis when it arises, or is it to have other functions?

2908. It would have other functions, but it would be practically in touch with the Government?—If we had a State bank which we could fall back upon in the event of a crisis, of course we should rather welcome it. But if we are to have a State bank which is going to take over the paper currency and to have a monopoly of Council bills and of all other Government business free of charge we should naturally oppose it.

2909. Might I put it like this, that while you feel a State-aided body with vast powers of that sort might be open to certain objections, still it is true that the banking position in India would be strengthened by such an institution at a time of crisis?—Granted that the bank exists for that purpose and that purpose only, of course it would relieve the strain.

2910. Allowing that for other purposes the bank were detrimental, if that were amongst its purposes would it be a good thing?—That is assuming an impracticable position.

2911. I am not saying there are not any disadvantages?—After all, if you did have a central institution, we all learn by experience, and you do not want banks to fall back too much upon any central institution. Each bank, properly speaking, should so conduct its business that so far as it possibly can be it is independent of these outside aids.

2912. But you would not maintain that that was the case in India at present, would you? As I understand, the banks keep a great part of their free money with the Presidency banks and keep no reserves of

their own to any large amount?—I should not like to say what a number of those up-country banks do, because they are established at many points where the Presidency banks do not exist, so probably they do keep considerable balances. It is difficult to speak without actual knowledge, and I can only say that in the Presidency towns I think these banks keep their cash with the Presidency banks.

2913. I should like to know, if you can tell us, a little more about the relations of the exchange banks at present with the Presidency banks. I understand that you keep balances with them much in the way in which English joint stock banks keep balances with the Bank of England; is that so?—Much the same.

2914. Do you also borrow from them to any important extent?—In bygone days we did. (*Mr. Toomey.*) But not now. (*Mr. Fraser.*) Not much, anyhow.

2915. Not now?—Very little. (*Mr. Toomey.*) Occasionally, possibly. (*Mr. Fraser.*) I think in recent years the exchange banks have not been big borrowers from the Presidency banks.

2916. Apart from the question of competition in exchange, would your relations with a State bank be very different from your present relations with the Presidency banks?—Our present relations with the Presidency banks are most friendly. I should think with a State bank they would probably be the reverse.

2917. Is that a sentiment of yours, or have you definite arguments with which to support it?—I do not see how it could be very well otherwise, when we feel that the advent of a bank with all the privileges that have been suggested would naturally mean almost our extinction.

2918. I put aside for the moment the question of competition in exchange; apart from that, why should your relation to a State bank be unfriendly?—You are leaving out the question of exchange entirely?

2919. Yes?—Then they are there simply to benefit us, and exist to help us when we are in trouble.

2920. They are there to consolidate the existing system?—Then we could hardly regard them as enemies. Under those conditions we would not, I should think, feel they were enemies exactly.

2921. So that the central point of your opposition to the proposal for a State bank arises out of the possibility that they might deal in exchange?—That is one reason. Another reason is that we do not think the country on the whole would in any way benefit by a State bank. We cannot see that India as a country is suited for it. We have already given our reasons. (*Mr. Toomey.*) We look upon a State bank in India as quite impracticable. (*Mr. Fraser.*) We consider the existing machinery as it exists in the Presidency banks is ample for the country's needs.

2922. Do you think that for the Government to have a banker and for there to be a central institution is no advantage whatever, quite apart from other disadvantages?—(*Mr. Toomey.*) I do not see how it would benefit trade.

2923. Assuming a lower bank rate, is not that a benefit to trade?—I do not think people in India are looking out for lower bank rates. (*Mr. Fraser.*) You can have such a thing as too low a bank rate, especially in India. When you have a very low bank rate it always encourages speculation, and it would very probably bring about a state of affairs which you would rather wish to avoid.

2924. I will not ask you any further questions with regard to the State bank, but there is one further question I should like to put, which is somewhat connected with this. In a country like India, where there are certain dangers in banking owing to the habits of the people, the possibility of speculation and so forth, it is often important to have as much publicity as possible in the various banks. Would the exchange banks feel any objection to publishing accounts in which their Indian deposits were distinguished from their outside-Indian deposits, and in which their Indian cash was distinguished from their outside-Indian cash, provided all the banks had to do it?—(*Mr. Toomey.*) We should have to consult the other Indian exchange banks before we could very well answer that question. (*Mr. Fraser.*) Naturally, no one bank would care to do it unless there was unanimity.

2925. I can quite understand that; but if all the banks did it, would your opinion be favourable?—(*Mr. Toomey.*) We should have no objection. (*Mr. Fraser.*) The bank I represent certainly would not object.

2926. You would agree with me that it is important, having regard to the whole banking position in India, that there should be accurate knowledge as to what the deposits in India are?—(*Mr. Toomey.*) We would have no objection to show them in a balance sheet if it were the general practice.

2927. I understand that you cannot pledge other banks, but so far as you are concerned yourselves, you do not see any objection to it?—(*Mr. Fraser.*) Not if the custom were general. (*Mr. Toomey.*) If other banks do it, we should raise no objection whatever.

2928. There is one other small point. Mr. Fraser's bank, I think, distinguishes between fixed deposits and deposits on current account?—(*Mr. Fraser.*) Yes, we do.

2929. Not all banks follow that practice; would there be any objection, do you think, to that practice being generally adopted?—(*Mr. Toomey.*) I see none from my point of view.

2930. Your bank does not actually do it?—No. (*Mr. Fraser.*) The Hong Kong and Shanghai Bank does it too. (*Mr. Toomey.*) We have no objection to doing so.

2931. You do not see any objection therefore against the banks having to show both how much they have in India on fixed deposit and how much on current account?—I do not see any objection to it myself. (*Mr. Fraser.*) If it is general; but you would not apply it to the exchange banks alone?

2932. No?—It would be applicable to the exchange banks, to the local banks, and in fact every bank would be put on the same footing?

2933. Yes?—I see no objection under those conditions.

2934. Would you have any objection to the publication of balance sheets from time to time which were average balance sheets, that is to say, which avoided all possibility of window-dressing?—We could not do it with the exchange banks. Our business is so involved that we could not possibly give you a weekly or a fortnightly balance, or a monthly balance. It takes us probably a couple of weeks at the end of each half-year, or more than that, to prepare our balance sheets. It is a complicated business. Then our branches are scattered all over the East, and so we could not possibly give, as the Presidency banks do, the weekly balances.

2935. My suggestion was meant to refer not to your whole business, but only to the Indian part of it. Would it be possible to publish average balance sheets? I do not mean that you should publish them weekly, but that your six-monthly balance sheets should be average balance sheets for the six months and not balance sheets for a particular day?—I should think that could be done. There is always a danger of too much legislation in banking, which we all deprecate. One does not want to be too much under the Government.

2936. I should like to raise once again a point Sir Shapurji put to you. He asked you whether you would welcome a guarantee by the Secretary of State that he would support exchange and you, Mr. Toomey, said "Yes," but you said it, if I may say so, without any enthusiasm; am I right in thinking that you do not attach any great importance to it?—(*Mr. Toomey.*) He is practically bound to support exchange within the limits of the gold points—1*s.* $3\frac{29}{32}$*d.* and 1*s.* $4\frac{1}{8}$*d.*

2937. Then you do not feel it would be a very significant thing for him to make an explicit declaration?—I do not think it would make very much difference to the world at large.

2938. You regard him as being already bound?—Yes, practically bound.

2939. So that a formal statement by him would not influence you very much?—No. (*Mr. Fraser.*) It certainly would not do any harm, but I do not see how

the Government of India can possibly let the exchange fall without ruining the country and everybody in it.

2940. (*Sir Robert Chalmers.*) Is there any instance of any Government making a declaration of that kind?—I do not think there is any on record. The Government acted very weakly in our opinion in 1907–8, when they very nearly ruined the country by not promptly using their reserves. It was the result of a meeting of the exchange banks, I think, in London with the Indian Council that brought about the immediate use of the reserve.

2941. (*Mr. Keynes.*) You think there is no risk of a repetition of that, and that that risk would be avoided by a definite declaration?—(*Mr. Toomey.*) I think the Government of India now know exactly where they are, and, in the event of exchange falling, they would promptly give out gold or a draft on London, because they know what they had to do in 1907–8.

2942. From the Secretary of State's point of view you regard him as so much bound already that he would not be adding to his obligations by making an explicit statement?—No.

2943. (*Mr. Gladstone.*) I think you said money should be lent in India to the Presidency banks, in which case the amount of gilt-edged securities available is limited?—(*Mr. Fraser.*) Yes.

2944. Would not the exchange banks be willing to increase their holdings of gilt-edged securities, and so increase the total the Government might lend to relieve any exceptional stringency of the money market?—(*Mr. Toomey.*) Of course that could be done, but we rather feel that the Presidency banks, as a sort of bankers' banks, in a sense, would be better qualified to deal with that. Then of course if the Government deals on a basis of an approved list such as you have in London, you at once bring into existence the necessity for employing brokers, and I do not think the Government offices in India are equipped for that sort of thing, whereas if they deal direct with the Presidency banks they know exactly where they stand and the terms on which the money is lent. Otherwise, you might have to bring in exactly the same machinery as is necessary in London for the India Council.

2945. Hardly, because I am only proposing to approach the exchange banks, and they are so limited in number that it would only mean four or five?—The amount that the banks would gain in the matter of interest would be, in my opinion, so small that I think, broadly speaking, we would prefer to leave things as they are at present.

2946. You have expressed the opinion, I think, that an advance of three crores might be enough to diminish any sudden stringency; but that might not be enough—it might require five crores?—It might; that was only a figure.

2947. If the exchange banks between them hold securities to that extent, it would make the relieving of the market pretty certain?—Yes; assuming the exchange banks have these securities, and can always take them to the Presidency banks and get the accommodation they want, which they could if the Government feed the Presidency banks.

2948. As to the question of hoarding, I think Mr. Toomey said the hoarding is on the increase, owing to the greater prosperity of the country; is there not nowadays more disposition to invest in high-class securities at interest, and will not that diminish the custom of hoarding?—(*Mr. Fraser.*) I think the people of India are undoubtedly slowly and gradually investing more in securities than they used to do, as you can see from the mere fact that securities in Bombay, taking Government paper or Port trust bonds, all stand several points higher in India than they stand in London, which shows that there is a market, a large portion of which is undoubtedly native.

2949. Would you think that investments of this nature are likely to go on?—I think myself that these investments are as a rule made by people who are well educated and can form a judgment of their own, whereas the hoarding that goes on in India in my opinion is largely done by the masses, what you might call the agricultural portion of the people. It is done in small bits, but it is the aggregate that tots up when you deal with a vast population. If you can by any means educate them up to the point at which they will see the folly of this, then I think the trouble will disappear to a large extent.

2950. (*Chairman.*) Do these small people hoard gold?—Probably they start with a rupee, and the chances are when they have got 15 rupees they exchange them for a sovereign, very frequently. (*Mr. Toomey.*) Now the workers in the jute mills and other similar occupations will have their little bits of ornaments in gold, whereas formerly they had their ornaments in silver. (*Mr. Fraser.*) I may mention that one of our agents recently told me that in the Amritsar Fair some of the well-to-do agriculturists who were present at the fair had strings of sovereigns round their necks, and that that was quite a common thing to see, whereas in bygone days they were content with strings of rupees.

2951. Nowadays they would be penalised if they hoarded any rupees, would they not?—If they realised the difference, which I suppose most of them do, but I fancy some of the very poorer type really do not quite understand it.

2952. (*Mr. Gladstone.*) Would you favour a larger proportion of the Government railway loans being issued in India, owing to this increase in the demand for investments?—Speaking personally, I should say yes. I think if the Government did more in the way of encouraging private enterprise to build railways in India than they have in the past, they could get more money, especially if they went in for a system of a guaranteed minimum and a share of the profits beyond a certain amount being given partly to the Government and partly to the railways; in other words, more encouragement should be given to private enterprise.

2953. They have given more encouragement of late years, but owing to the rates of interest those inducements are hardly sufficient now?—I think a good deal more might be done in India than is done now.

2954. Do you think a 4 per cent. guaranteed railway bond would go down well in India?—That might seriously enter into competition with the 3½ per cent. rupee paper if it has got the direct guarantee of the Government of India. It is on record, I believe, that the exchange banks, in conjunction with some of the Presidency Banks, offered an Indian railway company last year three crores of rupees for railway purposes on very reasonable terms—much better terms than have since been accepted by another company—but that offer was not accepted.

2955. One question as to the up-country treasuries. Have you considered whether the very large number that have been established are necessary?—Personally, I cannot speak on that point, as I have had no up-country experience. (*Mr. Toomey.*) I have not had any either.

2956. (*Sir Ernest Cable.*) I think you told the Chairman this morning about the Gold Standard Reserve, that you would prefer not to mention any limit?—Yes.

2957. You cannot assist the Commission, I suppose, by suggesting a logical principle on which we could arrive at some figure?—I do not think the time has arrived yet. I think the fund should be a good deal larger than it is at present before you fix the amount to be held in liquid gold.

2958. I should like to get an answer to this question from you, because it has been mentioned in the Press and elsewhere, I believe. It is said that the Secretary of State need never sell his bills below 1*s.* 4*d.*, that he has only got to sit tight and he will obtain 1*s.* 4*d.* whenever he likes; what is your view about that?—I think that would not be desirable at all. If he held out for 1*s.* 4*d.*, in the slack time of the year he might have to wait for a considerable time, whereas under the present system he reduces the amount when exchange is dull, and he can always feel the market. (*Mr. Fraser.*) He judges the market right through. (*Mr. Toomey.*) He reduces the weekly amount right through until he can find a market. By keeping the amount at 20 lakhs and so on, he can

feel the pulse and eventually sell more as exchange goes up.

2959. You had a discussion with Sir Shapurji a little while ago about the London and Indian money markets; do you suggest that the Indian money market is at all dependent upon the London money market?—In what way do you mean?

2960. Do the rates of discount vary one with the other?—No, not exactly.

2961. They are independent?—They are independent of each other. (*Mr. Fraser.*) They are intimately bound up as far as buying rates are concerned. (*Mr. Toomey.*) But not as regards money. It does not follow because the Bank of England rate may be high that the Indian rate will be high.

2962. (*Mr. Gladstone.*) There would be a greater difference between a demand rate, of course, than between a four months' or six months' rate?—Yes.

2963. (*Sir Ernest Cable.*) You said this morning that it would be a desirable thing to increase the elasticity of the note currency in India; do you think that it is a desirable thing to get out as many notes as possible?—The idea would be to encourage the note issue. (*Mr. Fraser.*) Do you mean to increase the circulation and to get the people to take notes where they now take gold or silver?

2964. Yes?—We think that everything that can possibly be done to popularise the note issue is a step in the right direction, because the moment the people accept notes as currency, as they do in all highly civilised and developed countries, then their troubles disappear, and you get the condition of a note circulation and a note currency well backed.

2965. Do you think that the Government is as efficient in that respect as a central bank would be?—(*Mr. Toomey.*) More efficient.

2966. Why would you suggest that? Why is it more efficient?—They are doing everything they possibly can to extend the note issue, and they have had a vast experience in running the department. What has added largely to the increase in the note issue of recent years has been the universalising of the smaller notes.

2967. Would you say that the currency note in India is over-protected?—No, I would not. (*Mr. Fraser.*) Do you mean that there is too much cash and too little investment?

2968. Yes?—No. I think that the position is carefully reviewed from time to time by the Government of India. They always consult, I think, the various authorities, the Chambers of Commerce, and the Presidency banks, before they increase the amount of the investments, and I think the amount at present is reasonable; it is 14 crores.

2969. I was going to suggest that a central bank might develop the use of currency notes perhaps by re-discounting hundis, that is, native bills, which the Government cannot do?—(*Mr. Toomey.*) It would be rather a risky thing to do for a State bank to discount hundis. (*Mr. Fraser.*) It is a highly specialised business.

2970. You said this morning, in respect of your up-country branches, you do not come into competition with the Presidency banks?—(*Mr. Toomey.*) Not to any extent.

2971. Would you say—it is a point which is bound to arise—the same with regard to your operations in the Presidency towns?—We may do the same class of business as the Presidency banks, but there is room for all in these Presidency towns.

2972. I know that argument, and, of course, that would be the argument that would be used against you with regard to the exchange market probably. That is just the point I wanted to know, whether you are competing or not?—We have a local business as well as our exchange business; we have to run one with the other.

2973. You cannot suggest any means by which those hoards of gold and silver, which Mr. Fraser has just been talking about, in the ryot class should be brought out?—No, there is no way we can suggest.

2974. No sort of inducement would appeal to the agriculturist, I suppose?—No. (*Mr. Fraser.*) We have touched very briefly on the question of co-operative credit, on which neither of us, I think, can speak with very much authority, except that the system, as we know it theoretically, rather appeals to us. I think in course of time, if the Government of India pushed that, they might by that means get the native to bring out his money. It seems to be the only thing so far that has had any really beneficial results.

2975. Knowing the native as we do, it is quite possible that, having a hoard in his village, he may still be borrowing at 40 per cent. or 50 per cent. from his bunnia?—(*Mr. Toomey.*) He can afford to keep these hoards, and will not part with them.

2976. (*Sir Robert Chalmers.*) If I remember rightly, you said, as one would expect, that the interests of the exchange banks were bound up with the general interests of India?—Quite so.

2977. And that the prosperity of India meant generally the prosperity of the exchange banks?—Yes, it means prosperity to us.

2978. You are looking at this question generally, therefore, on the basis of the prosperity of India?—Quite so.

2979. I think a criticism has been advanced in some quarters as to the action of the Secretary of State in keeping his Gold Standard Reserve in this country; it has been urged, I think, that the Reserve is kept in this country in the interests not of India but of the London money market?—I have seen that advanced.

2980. What do you say on that?—I say that London is the only market where the Gold Standard Reserve should be kept.

2981. In the interests of——?—In the interests of India.

2982. Because——?—Because if it ever has to be drawn upon the money will be required here.

2983. It is here where it is wanted?—Yes, and it could be of no use in India.

2984. It is kept here, therefore, in the interests of India?—Yes.

2985. Do you attach any importance to the criticism that the money is kept here in the interests of the London money market?—No; I think that is entirely wrong.

2986. Coming now to a detail, Sir Shapurji rather pressed you as to having 100 per cent. of the Gold Standard Reserve in gold; as bankers you are not without experience as to what you would do with money; it is not your practice to keep 100 per cent. in gold, is it?—No.

2987. What do you do in practice? Do you not have in your front line, cash, then money at call, then short-dated securities, and then investments?—Yes.

2988. Do you think that would be the sort of line on which your experience would suggest that the Government of India should deal with it?—Quite so.

2989. It is a mere question of expediency and of feeling the pulse of trade as to the proportion you would keep in gold?—Quite so.

2990. You would not dream of keeping 100 per cent. in gold?—I would not dream of keeping it all in gold; I think that would be too wasteful and extravagant.

2991. (*Mr. Gillan.*) I am not quite clear on this question of making loans in India what your attitude is. You have said in your memorandum (page 537 paragraph 12) that you would favour Government lending money out of the balances in India, but at the same time I think you said, in answer to the Chairman, that the amounts which have been given were enough in recent years, and that one does not hear much complaint of a 7 per cent. or 8 per cent. rate?—Yes. We know there has been a certain amount of agitation in India as to the Secretary of State lending money here, and not lending it in India, and though we see no reason why the Indian Government should not lend its surplus balances for the benefit of trade, we do not think any very large amount of money would be required. We suggest that the money should only be lent to the Presidency banks, and that any people wanting money on Government paper, Port trust bonds, and the like, should then go to the Presidency banks.

2992. What I was not clear about was the importance you attach to this measure?—I do not attach very much importance to it.

2993. About those very interesting currency figures* which you gave us, you got an average, as I understand, which is to be weighted, but at present it looks something like 62 per cent. in notes, 24 per cent. in silver, and 14 per cent. in gold?—That is so.

2994. One should not be misled by percentages which are taken only from headquarter centres?—But these are large branches and small branches mixed up together.

2995. You would not say that, as a matter of fact, taking the total circulation of currency in India, anything like two-thirds of it was in notes, would you?—No, I should not.

2996. Mr. Fraser, for instance, said the whole of the jute trade is financed with actual rupees, and practically the whole of the rice trade in Burma is financed with actual rupees?—Mostly in rupees. (*Mr. Fraser.*) That is so far as the actual buying in the districts is concerned.

2997. That is what I meant. You do not mean to imply that these statistics which you have got from your centres in any way reflect the composition of the total currency of India?—(*Mr. Toomey.*) No. (*Mr. Fraser.*) They are certainly not meant to do so.

2998. About what you said with reference to the gold mint, there is only one point I wish to put to you: What one is trying to get is currency, is it not, and that in the main is silver currency, namely, rupees?—(*Mr. Toomey.*) Yes; the main currency of India is silver.

2999. If you have got a time of bad harvests and so on, the currency for the time being is redundant?—Yes.

3000. But suppose you have a prosperous season and there is a great demand for currency, then your exchange banks are bringing money into India from wherever you can get it, by Councils, or sovereigns from Australia?—In a prosperous time, yes.

3001. From wherever it happens that that method of bringing money is cheapest?—Yes.

3002. Might it not happen that the cheapest method of getting gold in order to get rupees was coining the bullion in India itself?—No. We could not get at that; that would be no use to us. We should have to remit out.

3003. If you had a mint in Bombay——?—We have a mint in Bombay.

3004. If you take gold to the mint and get it coined into sovereigns, you could then take those gold coins to the Currency Office and get rupees?—(*Mr. Fraser.*) I do not follow that. Are you assuming that we would import gold bullion, or that we would get the gold bullion that is hoarded by the people? Do you assume that the banks would import gold bullion and tender it to the mint?

3005. Possibly?—(*Mr. Toomey.*) And are you speaking of an adverse season?

3006. No, I am speaking of a good season?—(*Mr. Fraser.*) Why should we take gold bullion to the mint? If we did so, there would be a great delay. If you take gold bullion to the mint here, you may have to wait a week, a fortnight, or a month, it might be six months possibly.

3007. Then that might not on occasion be the cheaper method?—I should think as a rule it would not be the cheaper method; I should think as a rule it would not pay.

3008. But it might occasionally?—It would be very exceptional; for instance, if by any chance, owing to the rates being favourable in Africa and various other conditions being favourable, you might possibly be able to divert South African mining gold to Bombay. Many years ago when I was in Calcutta, I diverted a large lot of gold from Japan to Bombay, because in those days the Government took gold yen, but they have since found that it did not pay them, and they will only take sovereigns and half-sovereigns now. (*Mr. Toomey.*) In the ordinary way the only gold which the Indian mint could look forward to getting is the local gold produced in the country.

3009. At the mines?—Yes.

3010. What about the other bullion that is in the country, could you not get some of that?—No, the people would retain their gold, and they would not send it to the mint. They can afford to keep their little bits of gold.

3011. Is there not a lot always passing through the hands of these dealers in bullion and so on?—No. We sell a large amount of bar gold in the course of the year, as we ship it every week. These bars are hoarded, and they would remain hoarded. The people would not take those bars to the mint. There would be nothing to be gained by it. They buy this bar gold, they do not want sovereigns, and they retain the bar gold.

3012. What are all these dealers in bullion doing with it?—They will cut a 10-oz. bar into half a dozen pieces, and they will sell that gold to the small people in these little pieces. Those pieces are made into ornaments. That gold would not go to the Indian mint.

3013. Then it is not your opinion that in a favourable season there would be any amount of gold coming out that would be available for coinage in India?—No. (*Mr. Fraser.*) Our experience is the reverse—that in a favourable season gold disappears, because the people are prosperous and are able to hoard more.

3014. (*Sir Robert Chalmers.*) Famine might bring it out?—It might; it has in the past.

3015. (*Mr. Gillan.*) About the reserve; you say in your memorandum that you are not in favour of the retention of the silver branch; I just want to put in two reasons that were given us by Mr. Abrahams for the retention of that branch. He said for one thing it operates as an extra reserve against the necessity of coinage?—(*Mr. Toomey.*) I can understand that; in fact, it is an emergency reserve.

3016. It is an emergency reserve, he said. Secondly, he said, it is a useful method of obtaining transfers between England and India in the case in which the Treasury balances are insufficient, because, he said, the next method of making transfers in that case would naturally be the Currency Reserve; but that would have the effect of earmarking gold in England, and it might so happen that the market conditions were against that sort of operation. I want to know what you think of those two reasons?—One is that it is acting as an emergency reserve?

3017. Yes?—You might have a certain amount of silver as an emergency reserve, but we say it ought not to be kept in the Gold Standard Reserve. The Gold Standard Reserve should be in gold or gold securities. If you want a reserve keep it somewhere, but do not keep it there. (*Mr. Fraser.*) It simply means that having these six crores in the Gold Standard Reserve in coined rupees, you have so much less in the currency reserve, and we argue that the proper place for the rupee is the Currency Notes Department and not the Gold Standard Reserve.

3018. How could you, as a matter of fact, decrease the possibility of holding gold in the currency reserve?—It does not matter much from that point of view. When you are estimating your requirements, I assume the Government of India takes into account that they have so many rupees in this extra fund. What is the object, then, of having them in that fund?—They might just as well be in the Paper Currency Department.

3019. Would not the amount of gold in the currency reserve be proportionately decreased if you had to hold six crores more of rupees in the currency reserve?—Not exactly, but take the two together. At the present moment there are 17 crores in the currency reserve and six in the Gold Standard Reserve. Do you want the six or do you not; if you do not want them, then 17 crores is enough.

3020. The arrangement is that we should start the busy season with 18 crores in the currency reserve and six crores extra in the Gold Standard Reserve?—Then start the season with 24 crores, and there is an end of it.

* *See* question 2763, &c. *supra*, and Appendix XVIII., pp. 541–2.

3021. In the currency reserve?—Yes.

3022. Is the amount of gold that you can hold in the currency reserve not reduced—that is what I am asking?—(*Mr. Toomey.*) You would have to reduce it. (*Mr. Fraser.*) If you consider you require as much as 24 crores of rupees to start the busy season with.

3023. You do not actually gain anything in gold, taking the two reserves together, do you?—(*Mr. Toomey.*) No. (*Mr. Fraser.*) The gold in the Paper Currency Reserve is not earmarked, and, as I have said before, it has a tendency to slip away when it is wanted; but gold in the Gold Standard Reserve cannot slip away—it is there.

3024. That I quite understand, and I have only one more point about that. The idea when the arrangements were last made about this Indian branch was that we should start the busy season with this distribution of the actual reserve, and that six crores of rupees in the Gold Standard Reserve during the busy season should be allowed to run out and be replaced by gold taken from the currency reserve, so that nominally by the end of the busy season those six crores might be converted into gold?—It would be a favourable opportunity to transfer it then to the Gold Standard Reserve.

3025. What I put to you is that the presence of silver in the Gold Standard Reserve under that arrangement was confined to the busy season, and the probability is that by the time the slack season arrives, which is the time that you require gold, you have the gold there?—(*Mr. Toomey.*) But that six crores would stand in the Gold Standard Reserve for years.

3026. I was speaking of an arrangement that was made recently with regard to this; I do not know whether that arrangement would in any way modify your objection to the system?—(*Mr. Fraser.*) I think not, because we feel that the Gold Standard Reserve should be in gold, and so held that it cannot possibly disappear as it would or might in India.

3027. About the extent of the reserve, there is only one question I wish to ask. I think you said, Mr. Toomey, that the famine in 1907–8 was a small one?—(*Mr. Toomey.*) Yes.

3028. On what grounds did you say that?—I should say rather that the requirements in connection with exchange homewards were comparatively small.

3029. How do you judge of that?—Do you not speak of the famine of 1907–8 as comparatively small?

3030. I do not think that was the view that was taken by the Government of India, and that is why I am more particularly asking you about it. There was a complete failure of the rains in India and the area of the famine was very extensive; I think it covered the Punjab, the United Provinces, and the Central Provinces?—I made no point of it.

3031. It is rather important, because this period has been given to us by Mr. Abrahams as a crucial example of what we may require?—Of what our requirements might be in the way of gold?

3032. Yes, and that we should be guided by the experience of that season?—I think the Indian Government lost about eight millions in that period in the way of gold.

3033. (*Sir James Begbie.*) Out of the Gold Standard Reserve?—(*Mr. Fraser.*) They lost a great deal more in the way of actual gold in the country.

3034. (*Mr. Keynes.*) 17 or 18 millions altogether?—(*Mr. Toomey.*) You cannot tell possibly how much would be required under similar circumstances in the future.

3035. (*Mr. Gillan.*) How far do you say that is a good example for our guidance?—It depends upon the severity of the famine. One cannot tell what the Indian Government would lose in the way of gold; it is impossible to tell. If there was a famine in the second year, it might be the Indian Government would lose a very considerable amount of gold, but how much no one could tell.

3036. (*Sir Shapurji Broacha.*) You cannot buy gold in India except to export, can you? When we think it is cheap enough to buy, we buy it, but we only buy it to export, do we?—We do what we like with it.

3037. You have very little money to buy gold with except for export?—There is no doubt if we did buy gold in India it would be for export.

3038. And you would not be exporting it if you sent it to the mint, and if it always went at 1*s.* $3\frac{29}{32}d.$, it certainly would not pay?—It certainly would not pay to buy gold and send to the Mint.

The witnesses withdrew.

Mr. O. T. BARROW, C.S.I., called and examined.

3039. (*Chairman.*) You come before us as a representative of the Government of India, I think?—Yes.

3040. Would you kindly tell me what your position is?—I am now retired, but I was for some time Accountant-General of Bombay, I was Comptroller-General for about four years, and I acted for a short time as Secretary in the Finance Department.

3041. In recent years, the Indian total balances have reached very high figures, I believe?—That is so.

3042. What has been the reason for that?—It has chiefly been due to the excess of net revenue over the estimates, but there was also a very large loan, I believe, taken in 1909–10 in advance of requirements—that is as I understand things—and the effect on the Indian estimates was rather intensified by estimating for a high balance at home.

3043. To that extent the high balance was intentional?—It was to the extent of the home balance. I take it that the home balance was estimated above the normal; the home balance being about four millions, I think they estimated for over eight millions in 1911–2 and over six millions in 1912–3.

3044. For what purpose did they do that?—The explanation is given in the memorandum on Indian balances (Cd. 6619).

3045. And you do not wish to add anything to what is there said?—There are one or two points in it which I do not understand, but I am really not in a position to criticise it.

3046. As regards the balances in India, do you think that they might be used with greater advantage to Indian trade?—Do you mean utilising them by loans?

3047. Yes?—I do not think it is very practicable to use the Treasury balances in that way, at least it is quite practicable to do it to a small extent, but to any very large extent it would be dangerous. You cannot always count upon them for one thing, and for another thing you cannot always make them available soon enough. Our balances are raised by the revenue collection, and the heavy receipts begin to come in as an ordinary rule in January. So you could not make your balances always immediately available. They are collected in a large number of sub-treasuries and places in the outlying provinces. It would be very difficult, therefore, to make all the balances available before the end of January anyhow. If the trade demand was very heavy and the bank rate rose very high in December and the early part of January, as it sometimes does, you would find it difficult to meet any large demand for a loan. After that, in February and March in normal years you could do so, but the point is that a year might not be normal and you might find yourself in difficulties. I think that is one of the main reasons against it, because trade would be depending upon an uncertain element. Otherwise I cannot see any objection to it, leaving out of question, I mean to say, such considerations as, for instance, its possible effect on Council bills. Leaving all that out of consideration, I think you could lend

a portion of your Treasury balances, but I do not think that it ought to be done, because I do not think trade ought to get to rely upon it.

3048. What is the possible effect on Council bills to which you refer?—Some people think it would have no effect at all, and I myself doubt whether it would have any serious effect as regards the amount of Council bills to be brought out, but I can see that it might as regards the rate at which they were sold, because it is possible that if you gave a loan it might pay somebody to take advances on loan instead of bringing out transfers at a time of high rates, and therefore you might possibly get a lower rate for your Council bills later on.

3049. You might get a lower demand?—Not a lower net demand on the whole year, but a lower demand at a time of high rates. At present a great many remittances are made by means of telegraphic transfers, and ordinarily in the busy season the rate for telegraphic transfers is very high, I think about 1s. $4\frac{5}{32}d$. If you postponed taking Council bills until the demand was less and meanwhile took an advance, I can see that it might affect the rates at which Council bills were sold.

3050. Instead of getting an average rate as at present, high at one period of the year and low at another period, you would reduce your rate, you think, to the level of the times of low pressure?—I do not go so far as that, but I think it might have an effect in getting a less high rate. I know it is a difficult thing to say exactly what effect it would have, but I think that you might, by postponing the urgency of the demand, interfere to some extent with the rates you obtain. It seems to me that if you could postpone taking Council bills at the time of high rates until the Secretary of State was more or less obliged to sell, you would be able to get them for a lower figure. I may be wrong about that.

3051. Do you think that the Government of India could afford to keep lower balances than they have been doing of late in India?—No, I should not think so; on the contrary, it has been rather Government's policy to keep higher balances than heretofore. We found in the old days that we had great difficulties. We used to try to work to a minimum balance of about 8 crores or $8\frac{1}{2}$ crores, and it was found to be difficult. We had to be making constant remittances, and altogether it was a troublesome business. It was agreed to increase gradually that minimum balance, and I think the figure now is something like 11 crores —I am not sure whether 11 crores or 12 crores is our minimum balance now at the time of greatest pressure at the end of November.

3052. On the whole you definitely prefer that the Government should not make loans from its balances?—I should prefer that it should not make loans from its Treasury balances.

3053. Would you make loans from any other sources?—There are two other sources. There is the Gold Standard Reserve, Indian branch, and there is the Paper Currency Reserve. The Gold Standard Reserve, Indian branch, might possibly be thought to offer a source for advances if your currency silver was so high, or the balance of silver in currency was so high, that there was no prospect of having to use the silver part of the Gold Standard Reserve during the busy season. It would be possible to advance from the Gold Standard Reserve, but it would not be advisable, because the very reason for which the Gold Standard Reserve is kept in India is to give the Secretary of State an alternative method of drawing Council bills, and if you once reduce the silver in the Gold Standard Reserve you deprive him of that advantage.

3054. Then you would eliminate the method of lending from the Treasury balances, and you would eliminate the proposal to lend from the Gold Standard Reserve?—Yes, I would, entirely.

3055. What do you say about lending from the Paper Currency Reserve?—I think with proper arrangements that is quite possible. Of course it is not practicable at present; in fact the law would not permit it as it stands at present, and also the way in which things are worked now would make it rather difficult. At present our investment is a fixed figure laid down by the Act, and whenever we alter that fixed figure we have to alter the Act, and before we do so we consult the business and banking community. That I hold to be a fundamental mistake; I do not think it necessary, and I think we can substitute another plan for it which would enable us to make part of the paper currency balances available for the use of trade.

3056. Will you develop what is in your mind?—My idea is that we should take power once for all to invest a certain percentage of the circulation. You might invest, say, 40 per cent. of the average gross circulation, or you might take it any way you like, either gross or net. Of course if you calculate upon the active circulation, you can afford to take a higher percentage than if you calculate upon the gross; but calculating it upon the gross circulation you may take, say, power to invest 40 per cent. of the gross circulation, though you need not work up to that figure. You could then make provision in the Act that part of your investment should take the form of advances on temporary security. You could then keep sufficient in hand to advance. By that method of allowing us to invest up to a certain figure, we could always, even at the present moment, do it and still leave room for gold and silver. At present the objection to investing a large percentage of the currency reserve is that it would not leave enough room for gold and silver—at any rate, it would not have done so a few years ago.

3057. Leave enough room where?—You would have to leave a sufficient amount of silver to meet the wants of trade. At present that is actually fixed at 18 crores at the beginning of the busy season. Then you want a certain amount of gold for the public demand in India. We would also like to have a place in which we could put gold in London when we want to sell Councils otherwise than from the Treasury balances. We ordinarily sell Councils against our Treasury balances until we have reached the limit up to which we can afford to pay in India. If you want to sell more, there are only two methods of doing it—either by placing gold in the currency reserve in England or drawing against the Gold Standard Reserve branch in India, which is a very small thing, only six crores. So you will have to have room in your currency reserve for the gold and silver that is likely to be there. If you invest, say, 60 per cent. of the gross circulation, which would be 36 crores, taking 60 crores as the present total circulation, you would only have 24 crores left, which would not be enough. If you invest 40 per cent. of the present circulation of 60 crores, that would be 24 crores, leaving 36 for gold and silver, that is to say, 18 for silver and 18 for gold, but 12 millions sterling is rather a small amount of gold. If Government has power to vary its investments within the limit of 40 per cent., Government could certainly be trusted to see to it that there is enough room left for gold, and, as the circulation increased, there would be more and more room for gold and silver. That would be, roughly, my idea. Also it would be open to the Government to keep two crores of this amount, or whatever amount was considered necessary—three, if you like—in hand, for immediate advances.

3058. When you are speaking of investments, you are speaking, I take it, both of permanent investments and of temporary advances?—Quite so.

3059. To the extent to which you could afford permanently to invest, you would be losing interest, would you not, by reserving a portion of the money for temporary advances?—Yes, that is true.

3060. Because the temporary advances would only be taken during a small portion of the year?—That is so.

3061. To whom would you make these temporary advances?—That I could hardly say. Of course when you are dealing with the currency reserve, one is dealing with rather a ticklish thing. The whole purpose of the reserve is to ensure the encashability of notes. I should personally be opposed to advancing it to anybody except the Presidency banks.

3062. What sort of security would you require from them?—I would hardly like to say. I suppose that the security which we could take from them would be principally Government Stock. It would have to be laid down what would be accepted.

3063. Port bonds?—It might be even those.

3064. (*Sir Robert Chalmers.*) Are they guaranteed by Government?—Bombay Port bonds are not, nor are the Calcutta Port bonds, but the Bombay Improvement Trust bonds are.

3065. A Port bond then would be a non-Government security?—Yes. I could hardly express an opinion as to what would be exactly the safe thing to take, but I presume that those could be taken.

3066. (*Chairman.*) Would you propose any other alterations in regard to the Paper Currency Reserve besides this general extension of the power to invest of which you have spoken?—With regard to the reserve, no. I think the present arrangement by which a small portion in gold is kept at home is a good one. As regards the Currency Act I think perhaps there might be further alterations. At present we only pay notes at certain centres, that is to say, at the Currency offices; it is possible that you might extend the number of places at which they are encashable, and that might be an advantage. Also you might perhaps increase the value of the notes you pay; for instance, we used only to pay on 10-rupee notes, but now we have gone up to 50-rupee and 100-rupee notes, I think. If you increase the number of places at which you pay them, which I think would be a benefit—I think the number might be extended very gradually—that would mean keeping a larger coin reserve.

3067. If you wanted to extend the number of places at which notes could be encashed, who would act as the agents for the Government of India in those places?—It would be done at certain main centres of the Government treasuries.

3068. You were not contemplating using the banks, then?—No, except so far as they are the custodians of the Government treasuries at those places.

3069. The use of notes has been very much on the increase, has it not?—Yes, very much, and that has principally been the case since we extended their convertibility.

3070. So that possibly if you could still further extend their convertibility, you might still further extend their use and popularity?—Yes, I think so.

3071. You think that is a desirable thing to do?—Undoubtedly.

3072. You do not belong to the school which thinks that it is desirable to get as much gold into circulation as possible?—No, I do not; I think it is more important to circulate paper.

3073. You regard gold as a wasteful form of circulation?—That is so.

3074. Do you attach much importance to the amount of gold in circulation as an aid to the Gold Standard Reserve for the maintenance of exchange in the case of a crisis?—No, I do not, not to the gold in circulation.

3075. Do you think that the gold in hoards would give much support to exchange in a crisis?—I should not think so.

3076. As regards the location of the Paper Currency Reserve, are you satisfied with its present distribution?—Yes.

3077. Are you satisfied with its composition?—Yes; except that there is the general question of how far you can prevent the gold in the Paper Currency Reserve accumulating, and whether its accumulation is a bad thing or not. At present we have no means, and I do not think we ever will have any means, of stopping this accumulation. Even if the plan, which I was outlining, of investing a percentage instead of a fixed figure, were adopted, that would not prevent the accumulation of gold. It would still go on, and it must go on, apparently. There is a tendency in some years for the gold that comes into the country to stick in the Paper Currency Reserve and not go out. During the last few years a large portion which has come in has stuck in the Paper Currency Reserve, and, of course, the lowness of our investment is the reason why the amount is bigger than it otherwise would be. It is, I think, desirable to try to check the absorption of gold. I know some people think not, but I am inclined to think that, on the whole, it is desirable to check the excessive importation of gold into India. Still, that accumulation of gold, if it is an evil, seems to be an evil which we cannot prevent, whatever we do with the Paper Currency Reserve, because it is no use coining silver before it is necessary.

3078. I think a good deal of silver is kept in the Gold Standard Reserve whilst gold is accumulating in the Paper Currency Reserve; would it not seem natural that an exchange should be made, and that the gold should be put into the Gold Standard Reserve and the silver be received in exchange by the Paper Currency Reserve?—Yes, it would if it were not necessary to keep the silver in the Gold Standard Reserve for another reason. The reason is that we want to have an alternative method for the Secretary of State to draw against. I do not see how that reason can be got over at present; eventually, I think, it can be got over, but not at present.

3079. I do not quite follow that?—It all depends upon the policy we follow as regards Council bills. If we are going to continue the policy, as I imagine will be done, of drawing Council bills beyond the amount of our own home charges, then as soon as the Treasury balances in India cannot suffice to buy Council bills, you must draw against the Paper Currency Reserve—there is no other way. It is sometimes inconvenient to do so, because you do not want to take gold off the London market. When that occurs, the only means of drawing you have got is against the Gold Standard Reserve, whereby, when you receive the money for Council bills here, you can immediately invest it, and so the gold does not go off the market.

3080. Does that not come back to the restrictions which are at present placed upon the use of the Paper Currency Reserve?—Yes. If it was safe to make temporary investments of the Paper Currency Reserve and we had a percentage, as I have suggested, within which we could work, I think you might do away with the Indian branch of the Gold Standard Reserve, because you could equally invest your Paper Currency Reserve. My doubt is whether you will find sufficient securities of a suitable character in the London market—I do not know about that. If you do find sufficient securities of a suitable character in the London market, you could then place your temporary currency investments. Of course they are on a different footing to the Gold Standard Reserve investments. What might be safe for the Gold Standard Reserve might, perhaps, be objected to from the point of view of the Paper Currency Reserve. I do not know; it is only my idea that there might be a distinction made.

3081. What is the distinction which you think might be drawn?—Only because of the nature of the Paper Currency Reserve investment. It is true that it is a reserve against our notes, and it is what the public look to for the repayment of their notes; we are in a fiduciary position there. But in the case of the Gold Standard Reserve we really can do what we like with it, it is only a matter of public opinion, and we could invest it even in rubber shares if we liked. We should not like to do that with the Paper Currency Reserve. That is my meaning, broadly.

3082. The obligation of the Paper Currency Reserve is to provide rupees for all notes that are presented for payment?—Exactly so.

3083. Must it not hold rupees rather than gold?—We are not obliged to pay notes in rupees; we can pay them in gold if we like, gold now being legal tender. Of course, we should not think of taking such a step, except under some emergency, but there is nothing to prevent our doing it.

3084. If the public present those notes in large quantities, exceptional quantities, let us say, is the demand likely to be for gold or for rupees?—The demand is likely to be for rupees.

3085. And what you would have in your reserve to meet that demand for rupees is gold?—Not quite, because of course anything like a demand of that sort, when it becomes excessive, is foreseen, and we can always convert our gold into silver sufficiently quickly for that. That is why we keep a certain balance of silver to enable us to do so.

3086. Should I be right in saying that when the crisis comes what will be wanted is rupees and not gold?—Yes.

3087. And that the gold is only valuable because it can command rupees?—Yes.

3088. It does not seem to you to be, under those circumstances, desirable to have the rupees there apparently?—Do you mean to coin in advance of the actual demand?

3089. Instead of holding gold in the Paper Currency Reserve, to hold your reserve in rupees?—But gold rushes into the reserve. Do you mean that we should not accumulate, and that as soon as we have gold we should send it back again and coin rupees?

3090. I meant to suggest that you should exchange the gold which came into the Paper Currency Reserve for the rupees which were in the Indian branch of the Gold Standard Reserve?—That is after all only a very small proportion; that is only 6 crores, and as I explained before we cannot do that unless we have some alternative method for drawing Council bills.

3091. Are you in favour of the opening of a mint in India for the coinage of gold?—For the coinage of sovereigns or of other gold? There is some distinction between the two. For the coinage of sovereigns I should think it was quite unnecessary, and I do not quite see how it is going to be done. The amount of gold that would come from the Indian supply is so small that it would not be worth while doing it merely for that I think, and to import gold to coin it in India seems to me rather absurd if you coin it into sovereigns. Of course any other class of coin that you are going to introduce would stand on a rather different footing, because, although we can get sovereigns enough when we want them from Australia or England, we cannot get the other coins, and therefore if you are going to have the other coins I think the mint for coining them should be in India. That would be the most convenient place probably.

3092. Do you see any advantage in having a gold rupee coinage?—No. A great many people think that the 15-rupee unit, the present sovereign, is too high to meet the general native taste, but that is only a conjecture. I think myself that it is mere conjecture as to how far they would take 10-rupee pieces more freely than they do sovereigns. Personally I should rather doubt it, but it might be tried. There are certain objections, of course, to coining gold at all in India.

3093. Would there be any advantage in trying it?—I should call it rather a disadvantage myself, because it seems to me that it is not necessary in a way to force a taste for gold on the Indian public. I cannot help thinking that if you did do so you would increase the gold drain on Europe, if that is considered a bad thing. If you introduce gold into the currency, I think it is clear that you would require more gold altogether in India.

3094. Of the gold that you might introduce into the currency how much, do you suppose, would remain in currency and how much would take the form of ornaments or go into hoards?—I think it is almost impossible to say; that is merely conjecture again. The natives might like the 10-rupee piece to use as currency, and again they might prefer it for the purpose of hoards; no one knows what they would do. Some people think that they would prefer a 10-rupee piece merely for hoarding purposes rather than the sovereign, because it would be a lower unit. If they did and if it increased hoarding, you would again get a further drain upon England. Whether they did or did not, if it went into the country and stayed there, it would mean a further drain of gold from England. It must mean a further drain, whichever it is. Of course it might have no effect, as they may not exhibit any preference for a 10-rupee piece.

3095. I will not pursue the effect on England, but suppose it did mean a further drain on gold from England, would you say that that must be the governing consideration for India?—Yes, I think so. My own feeling is that anything which lessens the world's supply is bad for India, that is to say, if you encourage the gold to go into hoards.

3096. Anything which lessens the amount circulating, you mean?—Anything which lessens the amount of gold available for exchange. I think that does affect Indian trade as it does affect every class of trade, and I cannot help thinking that it affects India as a debtor country perhaps more than other places.

3097. Are you right in describing India on the whole as a debtor country?—India is a debtor country in a way, that is to say, we have an outside loan on which we have to pay interest. Any scarcity of gold seems to me to affect, and must affect, us deleteriously. Also in the world's market any want of gold does affect the demand for produce, and therefore must badly affect India. So there seem to be two ways in which it affects India badly.

3098. I turn for the moment to the Gold Standard Reserve; do you criticise the present location of that reserve?—No, I think it is right.

3099. You hold it is right that the major portion should be kept in London?—I think undoubtedly so.

3100. Will you give me your reason?—It is no use, really, in India. You want the gold at home when a crisis comes. If you have it in India, you would have to send it home.

3101. Would you retain a small proportion of it in India?—Not in gold.

3102. Would you in silver?—In silver, yes. Even much of the gold in the Paper Currency Reserve I would keep here. Because in times of adverse trade we use the Paper Currency Reserve gold at home as well as the Gold Standard Reserve gold, so that the two things are rather interlocked. I think they are both more useful in England, and I also think that actual gold in England would be more useful than securities.

3103. Would you think it necessary that the whole of the gold reserves should be kept in actual gold?—No, I do not think it is necessary; but I think if it could have been done without other objections it would be a good thing.

3104. On striking a balance between advantage and disadvantage, what do you say?—I think the present system is best, but I think there was a good deal to be said for what the Government of India said on that point. They considered gold was more useful than securities in a time of crisis, and so it is because gold then goes into the market.

3105. I gather that you would deprecate holding any part of the gold reserve in long-dated securities?—Yes, I would.

3106. Or in any securities with no date of redemption?—Yes, I would.

3107. Would you fix any proportion which ought to be held of actual gold, or any sum?—I would not. I think it is a difficult thing, but I think that the present arrangement of about 5 millions is a very reasonable one.

3108. On the condition that the rest is held in short-dated securities?—I think that is the preferable plan, certainly.

3109. (*Sir Robert Chalmers.*) Would you wish to qualify your remark about the debtor country a little further? India has debts, but on the whole she is a creditor country, is she not?—Yes, that is so. I was thinking more of the fact that we have an external loan than of anything else.

3110. You have got to pay 20 millions in this country; that was in your mind?—That was in my mind, and the interest on the loan. Of course the more you appreciate the gold, as I suppose you would call it, the worse it is for India, because then India has practically to pay more in interest charges on her debt.

3111. On the whole, there is a balance of trade on the average of years in favour of India?—Yes.

3112. That is an essential fact?—Yes.

3113. Without that India would be in a very parlous position?—Quite so.

3114. You are speaking, therefore, in reference to a part of India's position and not to the whole when you speak of her as a debtor country?—Yes, that is so.

3115. You said it is an elementary question, but I should like it, if you would, to be amplified a little further—that you thought the gold in the Gold Standard Reserve should be kept in England?—That is so.

3116. Would you mind amplifying your view about that somewhat?—When an adverse trade balance occurs people wish to pay silver in India and receive gold in England.

3117. Because the settlement is in gold at home?—Yes.

3118. This is the place where they have to make their payments?—Yes.

3119. And consequently you keep the gold here?—Yes.

3120. Would you attach any importance to the view which I believe is held in some quarters that it would be a fortifying of the position to keep the gold in India in whole or in part?—I cannot see how it could be. On the contrary, my own impression is that there is a great deal to be said for the view that even the paper currency gold in India is of no use there at all, and that when a crisis occurs we should send it all home and refuse payment of gold in India altogether. That view has been taken, and I do not think it is altogether wrong; but I do not know how far public sentiment would stand it.

3121. Have you considered at all the question whether it would be desirable, with a view to people's opinions and feelings, to have any statutory sanction governing the Gold Standard Reserve?—No, I have not considered the point.

3122. There is, of course, with the Paper Currency Reserve a special statutory sanction?—Yes.

3123. But you have not considered the point, you say?—No, I do not think I have.

3124. Coming now to that suggestion of yours about a certain amount of the money in the Paper Currency Reserve being made available for purposes of advances to trade in India at certain seasons; the fiduciary portion of the Paper Currency Reserve is in certain securities, is it not?—Yes.

3125. Definite securities, Government of India securities?—Yes, the Indian portion.

3126. If you were to take power, in accordance with what I understood to be your scheme, to lend, we will say, to the Presidency banks a portion of what happened to be in cash, but which you regard as being an investment portion, you would require the same type of securities to be deposited by the Presidency banks, I take it?—Yes, that is so.

3127. That is to say, Government securities?—That was my idea.

3128. Let us see what would be the practical effect of your scheme. You would have power to invest up to a certain figure?—Yes.

3129. But you would not invest up to the hilt?—That is so.

3130. You would keep a little sum which you might call *x* for immediate use uninvested and remaining as a surplus, which would be a superfluous amount of cash?—That is so.

3131. You do that, keeping it in cash without earning interest, for the major portion of the year with a view to financing trade through part of the year?—Yes, that is true.

3132. Therefore, looked at merely as an engine of profit and loss to the Paper Currency Reserve, it would mean this, would it not, that you would be earning no interest for the best part of the year and you would be earning interest for a portion only of the year?—Yes.

3133. So on the whole you would lose in interest?—That is true; but if you will allow me to say so, there is no alternative. What I mean is that you lose now, and under any system you must lose. I am trying to make that loss as little harmful as possible by giving the trade the benefit of it. Whatever system is adopted for the investment of the currency reserve, I should hold there must always be a balance uninvested which could not safely be invested. It is so under the present system, and if you fix a percentage it must be so, because you must guard yourself by being a little below what would be the safe percentage; although you would be holding an amount which you could invest you are doing so now, and you will do so, I should think, under any system.

3134. But you would be doing it a little further?—You would be doing it with your eyes open—I do not think it would be more.

3135. (*Chairman.*) You would fix an amount which it is safe to invest?—Yes.

3136. I understand you to say, and I quite agree with you, that that amount would have to be fixed at something within the limit of safety?—Yes, it would.

3137. You have two alternatives before you. Having fixed that sum *x* as being capable of investment at a particular period of the year, you may invest it for three months or you may invest it for twelve?—Yes.

3138. I understand your suggestion to be that it should be invested for three months for the benefit of trade?—Yes.

3139. Instead of for 12 months which would be to the greater benefit of the fund?—Yes. Of course it depends on the light in which you look at it. I look upon it that the percentage which we shall fix for the investment shall be high enough, but not too high. If you fix that percentage you cannot work up to it every year, as it would not be safe. Say you fixed 40 per cent. of the average circulation of the previous three years; well, the next year you again change that to 40 per cent. of the average circulation of the then previous three years; and supposing that the circulation of the last day of the year is a great deal higher than the average of the previous three years, then you will really have got more than 40 per cent. of your circulation uninvested.

3140. I think you do not quite see the point I was trying to put. Whatever the sum which you fix as being safe to invest, is it not a necessary part of your proposal that a portion of it should be invested only during the busy months of the year when trade requires assistance?—Yes.

3141. Whereas, if it is safe to invest it, you would have the opportunity of investing it for the whole year?—I quite see the point; but it seems to me that you could invest temporarily even beyond what it is advisable to invest permanently.

3142. (*Sir Robert Chalmers.*) The Paper Currency Reserve is, as you said, fiduciary?—Yes.

3143. And the interests of the Paper Currency Commissioners, are they, or Board—of the authority regulating that reserve—is to safeguard their notes?—Yes.

3144. That and that only?—That is so.

3145. So far therefore as the object under your scheme is to lend money for the financing of trade, it is, would you agree, to some extent a departure from the purely fiduciary position of looking after the interests of the notes?—Yes, that is so; but of course we already use the Paper Currency Reserve in other ways than merely securing the encashment of the notes, that is to say, we do use it as a means of helping trade in half-a-dozen different ways. As long as there is no interference with the primary object, I do not see why we should not do it. There is no interference with the primary object of the reserve which is the repayment of notes, if we give, say, a transfer from one place to another through the Paper Currency Reserve as we often do, that is, if we give banks and merchants the option of paying a certain sum into the reserve in one place and taking it out at another.

3146. That is machinery, is it not?—It is a part of the business with the banks. We do not want it done for our own purposes, but we do it to assist them. We do not particularly want the currency funds moved from one place to another at the time we allow it; but we do allow it because we can allow it without inconvenience and for the purpose of helping trade. In the same way when we sell Council bills against currency reserves we are using the currency reserves really as a

means to assist trade, because it does not interfere with the safety of the issue, and it has no effect upon that one way or the other—therefore we allow it. Of course, if this scheme of allowing loans were in any way to affect the safety of the issue, I should say, Do not do it; but if it does not affect the safety of the issue, I see no harm in taking steps which would make this currency reserve useful instead of useless; that does not seem to me to be objectionable.

3147. So far as you lose sight of its fiduciary interest, to that extent you are departing from your position as a trustee having in view purely the interests of the note issue, and you are acting as a general philanthropist for trade?—As far as we lose interest that does not affect the Paper Currency Reserve, because the interest is not credited to the Paper Currency Reserve but to the Treasury.

3148. The Paper Currency Reserve of India was modelled on the issue department of the Bank of England, originally, and it still retains a general similarity, I believe?—Yes.

3149. The Bank of England does not advance money from the issue department, does it?—No.

3150. To that extent, therefore, your proposal would be a departure from the parent system?—It is, undoubtedly.

3151. Have you considered whether it would be possible to put the Gold Standard Reserve under, perhaps, the same body as the Currency Commissioners?—The currency is not under a Board of Commissioners. I do not remember the wording of the Paper Currency Act; there is a Head Commissioner of Paper Currency, but there is no board, or anything of that sort.

3152. There is an authority; could that same authority also be in charge of the Gold Standard Reserve?—The two things are rather different, are they not? I do not exactly follow you.

3153. They are interlocked to a great extent in maintaining the gold standard, are they not?—Only because we make use of the Paper Currency Reserve for a purpose for which it was not created. The Paper Currency Reserve has got nothing to do with maintaining the gold standard, but we make use of it, just as I said we might make use of it for trade, for that, though it has got nothing whatever to do with that.

3154. (*Sir Ernest Cable.*) With regard to the criticisms which have just been passed upon lending money to trade from the currency reserve, of course the question of interest largely enters into the calculation; supposing, for instance, you were to lend for six months at 7 per cent. you would suffer no loss of interest?—Not if you could lend for six months at 7 per cent., but I do not suppose you could do anything of the sort.

3155. Still you might lend at a higher rate than 3½ per cent?—Undoubtedly.

3156. So the question of interest might not be such a very large item?—It might not be serious. That would depend on whether the trade took it. You must remember that in many years they might not touch it, and you might certainly have an infructuous balance. I think under any system we would always have some infructuous balance.

3157. Which you have now, you say?—Which we have now.

3158. I think you drew a distinction just now, in answering the Chairman's questions, between the purposes of the currency reserve and the purposes of the Gold Standard Reserve, which were quite distinct?—Yes. I say yes, but we really need not have a Gold Standard Reserve at all, though we must have a Paper Currency Reserve. I think the two things are rather different. I think the Paper Currency Reserve ought to be managed upon a stricter footing.

3159. Of course the object of the Paper Currency Reserve is to protect the note issue?—Yes.

3160. And the object of the Gold Standard Reserve is to protect the rupees?—That is so.

3161. Would the two together, speaking broadly, answer one and the same purpose, namely, to protect the entire currency?—I look upon them as rather different. For one thing, we have a note issue which we promise to pay. You may say we have issued a promise to pay the rupees, but we have not done so definitely—we will do so, of course, but we do not pledge ourselves that we will pay the rupees.

3162. I was only leading up to this question, whether it would not simplify matters generally if both reserves were thrown together?—It would, and it could be done, but under present circumstances it is impossible because our note circulation is not large enough. It is quite true that the Paper Currency Reserve and the Gold Standard Reserve could be amalgamated and the whole thing worked with the Paper Currency Reserve, but not at present, because our circulation is not big enough.

3163. Do you mean your note circulation?—The note circulation is not big enough to enable us to hold both sufficient securities and sufficient gold. You must have sufficient securities plus sufficient gold to maintain your rupee standard, but we have not got enough. It is a simple matter looked at in view of the figures; and if you take the figures you will see we have not got enough. If we had enough it could be done, and I think some day it will be done.

3164. It is quite inconceivable, is it not, that there should be a run on the treasuries to change notes, because the bulk of the circulation is in 10-rupee notes and 5-rupee notes, which are scattered all over a large continent?—Yes.

3165. Therefore one cannot conceive an inconvenient amount of these notes being presented?—I think you can conceive of an inconvenient amount being presented. I think you will find that in some years the circulation has very largely fallen after times of famine. I think in 1897 and 1898 there was a very large fall in the circulation. It only amounted to a few crores, not to 50 per cent., or anything of the sort; still it was rather a large fall; I think it was from about 30 crores to about 23 crores.

3166. (*Mr. Gillan.*) Then you might have a political crisis in which the security of the Government was affected?—Yes, you might. Falls in the circulation have been, you might call them, serious, but not, of course, anything like what would be provided for outside the investment.

3167. (*Mr. Gladstone.*) I think you said that the Treasury balances, which used to amount to about 8 crores, are now 11 or 12 crores?—Yes, about 11 crores, That is, of course, at the minimum time of the year.

3168. Do you think that the very large number of treasuries established up-country are necessary now?—I have never thought about it, but I should think they were quite necessary.

3169. You have the railway and telegraphic facilities greatly increased; do you think that full advantage has been taken of those with a view to economising the balances and using them to the fullest extent?—Do you mean by reducing the number of treasuries?

3170. And the balances, by being able to move them more rapidly backwards and forwards to where they are required?—Even now we do not move the balances except as we require actual coin, and that is a very small amount. However many railways you have got, whatever the railway communication is, you would not do away with the frequency of remittances merely because you could send it by rail instead of by road, nor would the expense be much less.

3171. It would be much more rapid, and much more economical and much safer, would it not?—It would be much more rapid, certainly, but I am not sure about the other things, I suppose it would be more economical, but I have not thought about it.

3172. And safer; there would be less risk?—Yes. At the same time you must remember that the number of transactions tends to grow yearly. What was sufficient for our treasuries 10 or 15 years ago is no longer sufficient, because the number of transactions is multiplied and the expenditure is greater. You require larger balances for that reason, which might neutralise the effect of your increasing railways, and so on. I do not say that our balances are too low or too high, but at the time when they were raised from about 8½ crores to about 11 crores, it was rather care-

fully thought over as to exactly what increase was desirable. I cannot give you the facts now because I have forgotten them.

3173. Was it gone into with a full knowledge of the different conditions that prevail now as compared with 20 or 30 years ago?—I think what was taken into consideration was not so much the altered conditions as what we found in actual practice was the trouble. We found it troublesome and expensive to be constantly moving, and I do not think we compared what the conditions and the means of transit are now with what they were then. What we principally took into consideration—I think it was about 1905 or 1906 that the increase was made—was the amount of trouble we had in moving funds, and the amount of care and trouble, and the number of telegrams, and so on, that the Comptroller-General and his assistants had to deal with. We found it was troublesome with such a small balance because funds were constantly wanted in a place where money was not available. We did not take the greater facilities of remittance into consideration as compared with what they had been 20 years ago, but what the trouble was that we were finding at the time.

3174. Do you not think if those facilities were taken into account, and also the extension of telegraphs, and so on, that much more frequent returns might be made to the central authority, and that that would lead to the economising of its balances which are still dealt with in watertight compartments without relation one to another, and in connection with which, therefore, there may be a considerable waste?—There might be, but that is not so. We already consider that we take all the advantage that we can of the means of transit and communication; and notwithstanding that, we found that it gave us a great deal of trouble and expense, and we thought we would lessen that by increasing the balance. We were quite aware at the time it was done that increasing it meant paying practically so much interest.

3175. Would it be possible to have a statement of some of the representative treasuries, small and great, showing the money going in and out, say for a week or a month? I do not know how the other members of the Commission stand, but I have not the slightest idea what goes on at these treasuries. It is a matter of negotiation now, is it not, between the Government and the Presidency banks very often as to whether or not the banks will establish a branch and so enable a treasury to be abolished?—Yes.

3176. Do you not think that the banks would be able to work more economically than the treasuries by combining banking with Treasury business?—Wherever it is possible for the banks to open branches they already do so. I do not quite see how that could be done to a greater extent.

3177. My experience is that the terms are not considered good enough often, and that the banks refuse?—I do not remember any case of a bank refusing because the terms were not considered good enough. I can remember cases of banks refusing because there was not enough business; and that is the consideration, I imagine, that principally operates with the banks when they are asked to open a new branch.

3178. Of course, that difficulty might be met by giving them, as I think is often done, some special terms for that particular branch?—Yes. We have given them minimum balances in certain cases.

3179. (*Mr. Keynes.*) Sir Robert asked you one question suggesting that your plan of temporary loans from the paper currency, though it might be useful to trade, would be made at the expense of the interest earned. I want to pursue that point a little. I understand your view is that from time to time you can invest temporarily more than you can safely invest permanently?—I would hardly say that, but I think you can invest temporarily more than you would pledge yourself to invest permanently.

3180. More than it would be wise to invest permanently?—Not exactly more than it would be wise to invest permanently, because I take the view that the percentage might be very much larger than anything I have suggested with perfect safety; but I am doubtful whether we could take the step of actually publishing to the world that we were going to invest, say, 75 per cent. of our reserve, and I think Government would hardly care to face public opinion to such an extent. I personally think it would be quite safe to invest 60 or 70 per cent. of our reserve, but I do not think we should go so far.

3181. But you think that objection does not apply to temporary investment?—I think the objection does not apply to a temporary investment. My own view is that it does not make any difference whether you work to a percentage of 40 per cent., and allow the Government to vary its investments within that for temporary purposes, or whether you provide for the fact of temporary advances in addition to that.

3182. If you are investing temporarily money against the permanent investment of which there is no objection, Sir Robert Chalmers was obviously right?—Yes.

3183. But if you can invest temporarily money against the permanent investment of which there is some objection, of whatever kind, then perhaps there is an answer to his point?—I do not say that there is quite a satisfactory answer, and I do not pretend to give an entirely satisfactory answer. What Sir Robert Chalmers said—and my own view is that it is so, but it is my own personal opinion—was that we could safely invest temporarily, because it is more easy, for one thing, to withdraw a temporary investment than a permanent investment, and for another, you want to have some power of varying your investment within the limit which I have fixed as the minimum. One instance of that is this: you have an average circulation for three years, say, of 62 crores—I will give you a concrete instance; that is the present state of facts. That gives you an investment of 24·80 at 40 per cent.; suppose at the end of next year the circulation is found to be only 56 crores owing to a famine having occurred, or suppose it is only 48 crores owing to a famine having occurred, which is a quite possible event, then you will have got invested about 50 per cent. of your currency reserve, which a great many people would say is an excessive amount. Therefore you would have to have a proviso in your Act that if the investment exceeded a certain percentage—and in fact this was part of my proposal—of the circulation on the last day of the immediate preceding year, that amount of the investment should be withdrawn.

3184. You could withdraw it then more easily than if it were permanent?—That is so.

3185. I would like to put to you another reason in favour of a temporary investment—when a good season is ensured, reserves which were not superfluous so long as the nature of the season was doubtful become temporarily superfluous?—Yes.

3186. Therefore, if the Government keep their funds intact until a good season is assured and lend them on terms which would bring all that money back again by the end of the season, they could do that without running any appreciable risk of being caught short of reserves; whereas they could not have done that permanently, because a bad season might have overtaken them, when they would want the reserves. Would you agree to that?—I am not quite sure that I follow that.

3187. Say, that in November the character of the season was obvious; if you have funds then in hand to lend, well and good, you can be sure of the money coming back; but it would be very rash to have lent in August before you were certain how the season would turn out?—Yes, that is so.

3188. In those circumstances the Government could lend with the least risk to itself?—Yes, that is so.

3189. And at the same time it would be lending at a moment when funds were most useful to trade?—Yes, that is so.

3190. Would that be in your mind an additional reason for temporary investments?—Yes, I agree with you.

3191. But that would not apply at all to permanent investments?—That is so, I agree.

3192. Do your proposals for the investment of the Paper Currency Funds apply to temporary investment in London as well as in India?—It was only in India that I was thinking of investment.

3193. You were not thinking of lending in London against Government securities?—Well, yes, I was.

3194. Both in India and in London?—Yes, both. What I was thinking of with reference to India was entirely as regards advances. I was thinking that we might also invest part of our currency funds not in permanent investments at all, for the reason I have just given to you, the facility of varying within the limit——

3195. In Treasury bills, for example?—Quite so. The two things are separate in my mind. I was thinking separately of advances made to the Presidency banks and of the possibility of investing some of our reserve here at home in temporary securities instead of permanent.

3196. They were also separate in my mind. Now I want to go to the point of the investments in London. If that were done, would there then be any reason against the suggestion made by the Chairman of abolishing the silver branch of the Gold Standard Reserve and taking all that into the Paper Currency and putting gold into the Gold Standard Reserve?—I agree to that.

3197. Would there be any objection to it?—I think not; and I anticipated that that would be done when we once got a high percentage and a really high circulation. The only question is whether at present it can be done. I have not examined into it. It is a question of figures. It depends on how much you can temporarily invest, does it not?

3198. Is it your opinion that the silver branch of the Gold Standard Reserve only exists, because the Secretary of State is not free to invest the Paper Currency Reserves temporarily?—It comes to that.

3199. That is another advantage, therefore, in having this power of temporary investment?—Undoubtedly. That was one of the advantages I thought of.

3200. It is simply because the Secretary of State cannot invest the currency money temporarily that it is necessary to hold silver in India separate from the paper currency silver?—That is so.

3201. In recent years by the universalisation of a number of notes the old circle system has been, in effect, largely abolished?—Yes.

3202. In your opinion is there any reason why the circle system should not be done away with altogether now?—I do not see why we should do it with reference to the very high notes like the 10,000-rupee notes.

3203. What would be the disadvantage?—They are not notes that pass from hand to hand. We have done it in the other cases for the convenience of the public; but if you include 10,000-rupee notes, that would merely mean paying for the traders' remittances, and in those cases the traders should pay the exchange. In Europe if you want to send money from one country to another you have got to pay the difference of exchange, meaning the cost of carriage, as I understand it—I do not know that I can explain the matter very well, but it should be the same in India. The Government ought not to take any risk of having to pay the cost of any remittance for the sake of trade, and there is no reason why merchants should not pay it themselves. If you universalise 10,000-rupee notes you are, with your eyes open, saying, we will pay all your remittance charges for you if you happen to use those notes. We took the risk in the case of the smaller notes because we considered the advantages to the ordinary holders, the small people, were so great as to overcome any objection to Government having to pay remittance charges; but it would not be so in the case of 10,000-rupee notes.

3204. Do you think that now the 100-rupee note is a universal legal tender it is not used for remittance?—I do not say that, but I think the advantages would be greater than any risk we might have to pay for. I am not sure in actual practice whether we have had to pay anything, because I have not been in India lately. The idea was that whatever risk was run, it was worth it; but it would not be worth it in the case of notes which would be used purely for remittances and never in hand-to-hand transactions.

3205. You would admit, I take it, that the circle system in the past undoubtedly hindered the popularity of notes?—Yes, it did.

3206. And the people will probably be rather slow to understand that that reason has largely disappeared?—Yes.

3207. If you entirely abolished even the name "circles" it might help to make it clear to the people?—Yes, it might do so.

3208. I am suggesting that it would not really make much practical difference, because if anybody wants to use notes for remittance they can already use 100-rupee notes, and the difference between using ten 100-rupee notes and a 1,000-rupee note is not very great, is it?—I think it is very great. I am not sure—I think Sir James Begbie could tell you that better than I can—but I should think that 10,000-rupee notes would be used practically for payments between bankers, and only for that class of payments. I should think the Government would certainly lose a good deal if they were universalised, not only in the cost of remittances at present, but we get a good deal of premium from allowing funds to be transferred and we should lose the whole of that. Your idea, I take it, is that simply the name of the thing would encourage the circulation and therefore we ought to bear the cost for that reason.

3209. The abolition of circles would simplify the system, and the cost would not be very great?—I agree there is a good deal to be said for that view, but I would not do it.

3210. (*Mr. Gillan.*) Do you suppose that the ordinary person knows anything whatever about our circle system? There is nothing on a universal note, is there, which shows that it belongs to a particular circle except the letter?—That is so; but he does know about the circle system, because he has grown up in the knowledge—everybody has nowadays.

3211. The ordinary person who is dealing with small notes?—Yes, he knows that he could not formerly have got a Bombay note cashed in Calcutta. I think the system is generally known.

3212. (*Mr. Keynes.*) If you could say to people that notes were legal tender everywhere, if the statement could be put into a simple form, would that not do something to clear away the sort of doubt that remains as a legacy of the old system?—I rather doubt whether it would have any great effect. I do not think the wording of the Act would reach the public. I think it is the actual practical thing that they look at most. They know that they can get a Calcutta 100-rupee note changed in Bombay now, or they gradually acquire the knowledge that they can, and I should not think the native Indian people would think of what the actual wording of the Act was, and that it was only in the case of the notes that they themselves used that they would learn that they could do it, and that they would not acquire the knowledge in the case of the very high value notes. It does not seem to me, therefore, that the actual wording of the Act would appeal to the native mind.

3213. At present in the case of anybody who was brought up in the old state of affairs, it is a complicated business to explain to him exactly what the existing position is?—Yes, but do you not think it will gradually die away?

3214. Perhaps. You express the opinion that to increase the circulation of the notes was a very important thing?—I think it is very important.

3215. Does any way occur to you by which the popularity of the notes could be further increased?—Only what I just mentioned—that we should encash them at more places than the currency offices.

3216. Is that feasible?—I think it is feasible. I think it might entail a higher coin reserve, that is the only thing.

3217. Would it be possible at, say, the post offices always to encash 5-rupee notes if convenient?—Yes, I

should think it might be possible, but I am not sure, and I would rather not say exactly.

3218. I am rather thinking of instructions to Government officers to do this, in order to produce the impression on the native mind more than is the case at present that the Government would like to make it easy to cash notes?—I think it might be done.

3219. At any rate, more could be done than is being done?—I think something more might be done, but exactly what I should hardly like to say without examining the thing closely, as I have never thought of it; in fact, my attention had never been drawn to it until quite recently, and it was not drawn to it while I was in India. We never raised the question then whether we should encash the notes anywhere except at the special towns.

3220. (*Sir Ernest Cable.*) With regard to the suggestion that the post office should always encash 5-rupee notes if convenient to them, that would have a good effect so far as it went, but it would also have a harmful effect if one day the post office were unable to cash them; would that not lessen confidence in the note issue?—There would be an objection to uncertainty.

3221. And it certainly might be criticised?—The fact is I have really not considered these things; I have not taken them into consideration at all. It would require a good deal of consideration before we could say exactly how far we could go in the extension of encashibility. You would have to consider all the points we have just been mentioning, and it is not an easy question consequently to answer off-hand.

3222. (*Mr. Keynes.*) In your time the Government did not consider whether they were pushing the notes as much as they could?—No, they did not—at any rate, not to my knowledge.

3223. Mr. Gladstone spoke to you about the amount of coin kept in the sub-treasuries, and he asked you on what sort of principle you had been acting, and you answered, as I understand, that the dominating consideration was that you should avoid the constant bother of the movement of money and so forth, because that was expensive and troublesome?—It is very expensive in such a large country as India.

3224. But if you are prepared to face that trouble you might be able to have rather smaller balances at the sub-treasuries without risk?—That might be so at the treasuries, but you cannot have smaller balances at the sub-treasuries, because that is where we collect our revenue, and we do not make payments from the sub-treasuries, or at least very few.

3225. As long as the alternative was to move the money into the reserve treasuries and there leave it idle, the consideration of the trouble and expense would be paramount, but if the money that you move was being used you could set against that trouble and expense the interest earned; I mean the amount which the Government of India could lend or invest depends on the amount in the reserve treasuries, and the amount in the reserve treasuries depends on the amount in the other treasuries being kept as low as is convenient?—I am afraid I do not quite understand that. The amount which the Government can lend depends upon the amount we get at the reserve treasuries. Are you talking now of loans from the Treasury balances?

3226. No; I am speaking of loans from the Paper Currency Reserve, your original proposal?—A loan from the Paper Currency Reserve has no connection whatever with the balance in our Treasury. The balance in the treasury is entirely independent of the currency.

3227. I thought you were speaking of the paper currency offices?—No; I think Mr. Gladstone was speaking of the treasuries. But I quite see what is in your mind. If we did not mind the trouble and expense of remittances, we certainly could work with a smaller balance.

3228. Is the amount of rupees at the currency offices all over the country kept down to the lowest point?—Yes. We fix the total amount of rupees in our currency at a certain maximum figure at the beginning of the busy season, and work down to the lower figure at its end; but that maximum is a maximum with reference to all the Paper Currency Reserve, and not to the reserve at one place.

3229. On what principle has that maximum figure been fixed?—It has been fixed upon the experience of previous years as to the absorption and the return of rupees from circulation.

3230. Has it been overhauled lately?—Yes, quite lately, I think about 1910 or 1912; I have forgotten which.

3231. You do not think there is any room for economy in that way then?—In what way?

3232. You think there are as few rupees scattered about the country in Government treasuries as is possible?—Yes, I think so. I think the amount calculated is a very reasonable one.

3233. (*Sir Shapurji Broacha.*) When you left India you think the Treasury balances had reached the safety point of about 11 or 12 crores?—I think the minimum was calculated at about 11 crores.

3234. Have you any idea now what the figure should be for the safety of the Government?—I think it should be about the same. I think we calculated a fairly liberal figure at the time. We used to work with a lower Treasury balance; it was once about 8½ crores at the height of the busy season, and we raised it to 11 crores so as to give us a liberal amount.

3235. But that was four years ago?—I think it was about 1909 or 1910 we began raising it. We did not do it all at once; in one year we raised it to 10 crores, and I think in the following year to 11 crores; I have forgotten the exact dates.

3236. Supposing we put it at the utmost and say 15 crores?—We never tried to work to so high a figure as that.

3237. If it were 25 crores now, what would be your advice?—But we had not that amount.

3238. If 25 crores were in the Government Treasury Reserves, and that is the existing figure at this date?—It should not be 25 crores, as a matter of fact, unless you entirely change the principle of how much you draw away to England.

3239. That is the balance, not the fixed minimum, as it exists now actually in the Government treasuries?—Do you mean in any particular month?

3240. At the end of last year, March?—You have got to recollect that the balance at the end of March is fixed with reference to what the balance will be on the 30th November.

3241. That has been done for some time now. How much do you think would be lent in time of stress or strain on the money market, about five crores?—How much of what?

3242. Of the 25 crores balance lying in the Treasury idle?—We never required a higher balance than about 18 crores in India at any time. A little over 18 crores is our maximum balance on the 31st March, and we do not ordinarily require a higher balance than that in order to have 11 crores on the 30th November.

3243. Ordinarily about 12 or 13 crores will suffice?—About 12 or 13 crores will suffice for these months, November, December, and January.

3244. Supposing that in January you have 20 crores, I think it would be safely lent, what do you say?—Yes, undoubtedly.

3245. Our fiduciary securities are now 14 crores on a circulation of 69?—Yes.

3246. That is only 20 per cent. of the whole now?—That is about it.

3247. Do you not think, compared with what it is in this country and in other countries, that that is a very low percentage?—Yes, I think it is unnecessarily low.

3248. In fact Government cannot afford, if the Treasury balances are very low, to give you any loans from the currency balance against Government paper?—They could if it stayed as at present.

3249. There are only about eight centres or eight circles for encashing notes; is that so?—I do not remember the number, but it is something like that.

3250. Could not the Government, with their present machinery, enlarge the number of circles?—I am not sure what the advantage would be.

3251. (*Mr. Gillan.*) But it could increase the number of offices at which notes could be encashed?—Yes, that is one of my points.

3252. (*Sir Shapurji Broacha.*) In one of the letters that has been put before us it is stated that the Government have to keep money in 200 large places and about 800 small places, so that when we are talking of a State bank which could have a number of branches, may it not be said that the Government have branches enough already if they choose to encourage the larger taking of notes by the people?—Yes, and I have just said that I think we could, perhaps, increase the number of places at which we encash the notes. Of course, we should not do so at every Treasury.

3253. Did you also say that money could be lent from the Gold Standard Reserve in time of stringency?—I said that it could not.

3254. (*Sir James Begbie.*) I understood you to say that you thought you could not lend from the Treasury balances, because you could not count upon the Treasury balances?—That was so.

3255. Does that apply to the revenue collecting months in the early part of the year?—It might apply. You never know when a time of strain might fall on the Government. It is quite possible that we might be very short of money, and even have to stop the Secretary of State's bills. We did so, you will remember, in 1897. At that time a war occurred, and at the same time there was a famine and the war happened to be in August, but if that happened to be in January or in February, I am not at all sure, even although the revenue collection came in at that time, that we should be in a position to give money to the banks.

3256. Taking the figures over a number of years, the Treasury balances are always high, are they not?—Generally; I do not say that usually we could not give it to the banks.

3257. In the last two or three years there have been very large surpluses; do you think those surpluses could have been held in India and lent out, or do you approve of their having been brought home?—I approve of their having been brought home.

3258. You do not think they would have been more useful if lent out in India, so far as the money market was concerned?—Of course you could retain a certain amount of surplus for loaning in India, but then what are you going to do with it afterwards? Supposing you lent the surplus and did not draw it away when a favourable opportunity occurred, you would be left with it on your hands for the whole of the year except for the first two months.

3259. What would you gain by having it sent home?—By having it sent home it could be spent either in the avoidance of debt by capital expenditure, or in the reduction of debt. It is useful at home; it is no use in India.

3260. As a matter of fact it was lent out in London?—Some of it was.

3261. And it went to accumulate the cash balances?—No; I do not think that is quite right. My own idea is that a large portion of it was drawn away, and as soon as it was possible to employ it, it was employed either for capital expenditure or for the reduction of debt. Of course you cannot always employ your funds at the moment, because there are certain conditions which compel you to keep them perhaps temporarily in hand. The idea was to utilise them as early as possible, and I fancy they were utilised as early as possible. We should have been hampered in doing so if we had left them in India.

3262. I think a good deal of the balances in London were formed from the surpluses drawn from India?—Nearly all; in fact all except the few millions that they had at home.

3263. The balances rose to a pretty considerable figure?—They rose to a considerable figure, but I do not know that it could have been foreseen that they would rise to a particular figure. The Secretary of State, I think very wisely, drew away the balances as he was able to do so. In the long run he must draw them away, in order to pay our home charges and to reduce debt.

3264. I am talking about surpluses?—And I mean that we must draw away the whole of the surpluses; we cannot leave them unutilised in India, unless you can present some alternative scheme, and I do not see any alternative scheme myself. To keep them simply in order to lend them to the banks for two months would not do away with the great inconvenience that we should experience if we, say, had some temporary debt, which we could reduce in the middle of the year at home, and we are prevented from doing so because we have not drawn away the funds. That perhaps might entail our raising more permanent debt at home, which we otherwise should have avoided if we had drawn away the funds. I think it would be a very serious step to leave them in India for the purpose of lending to the banks.

3265. The surpluses might be used, might they not, to reduce taxation?—That is so, of course; they can be used to reduce taxation if you think the permanence of the surpluses is assured.

3266. I understood you to say that you objected to lending, or that you did not approve of lending in India, because such loans might operate against the sale of Council bills, or because, at any rate, you would not get such a good rate for the sale of Council bills?—I did not say that I had a distinct opinion on the point; I said that it had been suggested, and perhaps there is some reason in it.

3267. After the Government have remitted all that they have to remit in the year, would you still consider there is any objection to lending in India? For example, in the last two or three years the Government have remitted all that they budgetted for very early in the year, perhaps by December, and then they proceeded to sell bills to bring the whole of the surpluses home; in a year like that do you not think that they might give loans in India and help the money market in India?—I think so as regards the portion which need not be remitted home. I think the reason, and the only reason, against it is the idea that if you do help the money market in India with loans, it will get into the habit of depending on the Government. I think that is the idea underlying the objection—that if you help trade, say, in one year like that you have instanced, a year in which it would be quite possible to do so, then in the next year it might not be possible, but trade would have come, after perhaps two or three years, to rely upon its being done, and it would cause trouble when it was not done. I think that is the feeling underlying the reluctance in India to lend the money.

3268. With regard to the loans from the Paper Currency Reserve, would you fix any periods for those loans?—I think that would have to be done.

3269. Would you fix any minimum rate at which they should be given?—I cannot give an opinion upon what the rate should be. It should undoubtedly be something below the bank rate of the day, but what rate I cannot say.

3270. But there would be no absolute minimum in the way of rate?—I suppose Government would not give loans unless it was absolutely necessary, that is to say, unless the bank rate showed it—unless the bank rate was at least 6 per cent. to 7 per cent.

3271. I think you said that you consider gold in circulation is of no use to support exchange?—I cannot see that it is.

3272. For the support of exchange it is preferable to have gold in circulation rather than silver, because the more gold you have in circulation the less rupees you have in circulation?—Yes, that is so.

3273. So that negatively, anyhow, gold is preferable for the purpose of supporting exchange?—In that way, it is.

3274. Would you say that the experience of 1907–8 shows that there is some danger of an excess of rupee coinage?—I do not know that that is the case. I think the experience of 1907–8 is perhaps not the most severe strain that we may be subjected to. I think it would be dangerous to suppose it is the greatest we will ever be subjected to. Of course we know that we have got that enormous rupee coinage.

3275. And you recognise that there is a danger attached to it?—There is, of course, a danger attached to it.

3276. You said something about alternative methods of drawing bills by the Secretary of State; is it necessary that there should be any alternative method of drawing bills?—I do not think I mentioned that, did I?

3277. I understood you to say that in the case of the Gold Standard Reserve in India, the silver branch was maintained so that it might be available?—I simply mentioned that because of the difficulty of withdrawing gold from the London market. That was my meaning at the time.

3278. You were thinking of the London market?—Yes; it was the old question of earmarking gold in the Currency Reserve.

3279. Do you think there is some disadvantage in coining gold in small pieces, and do you think it might lead to more gold being wanted for currency purposes?—I do not know that it would. I only said that as far as it did, it would increase the drain of gold and, therefore, might be regarded as an evil. I do not say, one way or the other, anything about its increasing the circulation because I do not know, and I think that it is mere guess-work.

3280. Do you think it would increase the demand for gold?—I think it would, if it increased the circulation or if the natives liked the 10-rupee piece better than they do the sovereign, otherwise I do not think it would have any effect.

3281. I cannot see how it could increase the demand for gold except through the action of the balance of trade?—In this way—at present you have got a certain amount of silver, and Indian merchandise is exchanged for foreign merchandise plus gold plus silver. Now the silver is used for three purposes—arts, hoarding, currency. If you replace any portion of that silver currency by gold, you will take more gold and less silver in payment for your products. Therefore, the use of the gold currency in India increases the drain of gold from Europe, unless you get the gold for it out of Indian hoards, which is unlikely, though there is no reason why you should not.

3282. In the case of silver you have to buy your silver, and you have to use gold to buy the silver with?—Your silver is really a matter more of what you import than of what you export. I am talking about the net imports of gold and silver, and you can leave the export of gold and silver out of account. For your merchandise you receive merchandise, gold, and silver, and part of that silver you use in coinage. As to the parts which you use in arts, and which are hoarded, there is no reason to think that the circulation of gold will alter those two parts. It alters the amount of silver in the currency because then there is more gold used and less silver, consequently, if you use more gold and less silver, you import more gold and less silver.

3283. Do you think you do so?—Why not?

3284. Do you not think the balance of trade is paid in gold and that it is Government which converts the gold into silver—I am talking of the kind of things that are imported into India. You admit that you import merchandise, gold, and silver into India?—I say that if for any reason you increase the use of gold and decrease the use of silver in India, you will import more actual gold and you will import less actual silver.

3285. Do you mean in the currency?—In the currency or anywhere else. If you increase the hoarding of gold in comparison with silver, you will again import more gold and less silver.

3286. I am afraid I cannot follow that?—That is my argument. I may be wrong, but I think that is true. Suppose you use gold for a purpose you previously used silver for. The country naturally imports what it wants, and it will import more gold and less silver.

3287. Suppose the balance of trade is, say, one million sterling; at the present time India takes, say, half a million in gold and half a million in silver, that is for use as currency. How do you get that silver? Do you get it out of the balance of trade, which is half a million gold and half a million which the Government convert into silver themselves, or do you take the total amount of the balance of trade, one million, and say the total amount added to the currency is one million? Then if the habits of the people change and make them take gold instead of silver, do you say that the Government would not still take the one million of gold just as before?—I have not taken one million of gold—I have only taken half a million of gold. They have purchased with their produce half a million of gold and half a million of silver, and I do not see how you can get away from the fact that they actually send goods out of the country and that they actually bring in gold plus silver, that if they want more gold than silver they will decrease the amount of silver they will bring in and increase the amount of gold they will bring in, and that that must increase the drain of gold from Europe. That is what I hold, and I think it would be the same thing if the 10-rupee piece is simply passed through the mint into hoards.

3288. I am talking about passing into currency only?—I think the same thing occurs in both cases, myself.

3289. With regard to the Gold Standard Reserve, I think you said you thought it ought to be held at home because it was wanted at home in a crisis?—Yes.

3290. As to the liability to convert rupees into gold, does not that liability fall due in India?—No.

3291. The people who want rupees send home for gold to get rupees?—Yes, but they do not want to receive the gold in India; they want to receive the gold in England.

3292. I think the liability is in India, and you have to convert the rupees in India?—Will you offer them gold in India and see what they will say? We did offer them gold in India; they did not send it home, but they asked us for gold in England.

3293. That was because you gave them the offer, was it not; if you had not had the gold in London, what would have happened?—Do you mean that they would have preferred to send the gold home themselves rather than have it here?

3294. I do not say they would have preferred that, but I say the liability to make the conversion is in India; what do you say to that?—I do not know exactly what is meant by the liability.

3295. The liability of the Government?—Theoretically it is so, but it is not so practically. We are supposed to buy back the rupees, and we are supposed to buy them back in India.

3296. (*Mr. Gillan.*) I suppose that there are really historical reasons for the present system of treasuries in India, that is to say, they grew up at the time when there was nobody else to do the business?—That is so.

3297. Do you think there is a case for reconsidering it under more modern conditions, I mean with the extension of banking facilities; does it seem very well adapted to these more modern conditions which we have now?—What do you think is not adapted? I am afraid I do not understand.

3298. I mean having an entirely different Government machinery that goes down from the Presidency towns right through the districts, with sub-treasuries, running alongside a fairly developed banking system, duplicating it more or less. I am not putting any definite scheme before you; I am merely asking whether you consider that there is a case for reconsidering the machinery of Government finance in India?—I am afraid I do not quite see the point. It is impossible to say, without knowing exactly what is in your mind, what machinery should be substituted for it.

(*Mr. Gillan.*) Some method of, we will say, joining it on to the banking system without the banks taking it over in some way.

3299. (*Chairman.*) Would you agree that wherever the Indian Government can persuade the banks to start a branch at less than the cost of the treasury to themselves, they would be wise to pay whatever within that figure is required to induce the bank to do so?—I think that might be so. I think if we could get an

extension of banking facilities in place of a treasury it would be a good thing. It is the practical point of view that I am looking at. A bank does not work for the benefit of the public, it works to earn dividends, and if the place is such that it cannot make it pay, then they cannot go there. There are hundreds of places where they could not make it pay.

3300. (*Mr. Gillan.*) As a matter of fact, can you tell us on what sort of terms the Presidency banks have started new branches?—They have started them very reluctantly, and once or twice they dropped them after they had started them, because they did not pay.

3301. What sort of terms had we to give them?—I do not remember giving them any special terms, except allowing a minimum balance to rest with them.

3302. We guaranteed a minimum balance?—Yes.

3303. For a number of years?—Yes.

3304. That method obviously cannot be very largely extended, can it?—It could be extended.

3305. I mean without increasing your Government balances as a whole. If you earmark five lakhs here and five lakhs there, and if you increase the number of branches substantially, the total would mean an addition to the minimum Government balances? — Yes, it would.

3306. So that there is not very much to be done along those lines, is there?—I am afraid I have rather forgotten. At one time I did know how the matter stood, but it is four or five years since the question was dealt with.

3307. (*Chairman.*) Have you ever paid a direct subsidy to any branch?—I do not think so. I do not remember doing anything except guaranteeing them a minimum balance; that was about the only inducement.

3308. You probably would be familiar with the cases where private individuals, great contractors or great companies, for instance, have found it worth while to subsidise a particular branch in order that they may have banking facilities where they are carrying on their work, no banking facilities existing there previously. You do not think that has ever been considered?—I do not think we ever have considered it. My memory is rather bad as to exactly what occurred when we were trying to press the extension of branches, which was about six or seven years ago.

3309. (*Mr. Gillan.*) I think the only terms offered were the guarantee?—I think that was all we did.

3310. In addition to those treasuries scattered all over the country we have got these very large balances at the Presidency towns?—Yes.

3311. And as you know, we have a big business in transfers between the Presidency towns and up-country?—Yes.

3312. I want to ask you, as an official who has dealt with these things in a practical way for a long time, whether you do not consider that that sort of business would be better run by experienced bank officials rather than by Government officers?—Yes, I do think so.

3313. Now how about the loans in India; you said, I think, in answer to Sir James Begbie, that there was, as a matter of fact, a surplus balance available over and above the minimum working balance in the latter part of the busy season, that is, from January to March we will say?—There usually is, I think.

3314. Your chief objection to lending it out is that it cannot always be depended on?—That is so.

3315. That is to say, there would be years in which there might be no surplus?—I agree.

3316. At the same time that is a surplus which we are bound to have temporarily in India in a good year?—Yes.

3317. Because we are aiming at finishing the financial year, as you said, with a balance of about 18 crores?—That is so.

3318. Does that not mean that that is liable to be drawn off by Council bills?—May I say that finishing the financial year with a balance of 18 crores is of no importance except for one purpose, and that is, so as to be sure on the 30th November of having a balance of 11 crores; otherwise the 18 crores balance is very much higher than what we can work with on the 31st March.

3319. That I quite understand, but as a matter of fact, in order to secure an economical balance at the end of November we did always budget for a closing balance of somewhere in the neighbourhood of 18 crores?—Yes, always.

3320. From January onwards you have a certain amount over and above the minimum working balance?—Yes, we do.

3321. It would be a temporary advantage, to the Government to lend that out?—Yes.

3322. It would be making interest?—It would.

3323. And in the years in which they could so lend money from this Treasury balance it would be an advantage to lend it, would it not?—Yes.

3324. Do you not think those two advantages are at any rate to be taken against a possible disadvantage in some year in which Government could not afford to do it?—I think so. I do not hold any very strong opinion against lending the Treasury balances to trade. I say that there are objections to it and I mention the objections, but I do not personally hold a very strong opinion at all against doing it.

3325. But you recommend lending from the currency reserve?—Where it can be done.

3326. Still, that does not exclude this question of lending temporarily from the Treasury balance?—No, it does not.

3327. The two things are not in conflict really?—No, not at all. I merely mentioned the currency policy as one that might be followed if the Treasury policy were entirely rejected.

3328. Several questions have been put to you to-day about the extension of facilities for the encashment of notes, and I think you said in answer to Mr. Keynes that that question has not really been considered by the Government of India?—It was not in my time.

3329. When the question of the universalisation of notes was under consideration, the main difficulty always considered was the difficulty that might arise from the use of notes in remittances, was it not?—Yes, that was the main difficulty.

3330. Government was afraid, in fact, of being flooded at some particular currency office by an enormous number of notes collected elsewhere and of not being able to cash them?—Not only that, it was afraid it might be necessary to move cash in order to do that.

3331. Do you happen to know as a matter of experience, since universalisation was carried out, whether that difficulty has arisen or not?—I do not know. You must remember that universalisation only preceded my departure from India by a very short time, and there really had not been sufficient time to gain experience of it when I left India.

3332. The reason I am asking you about that is this: We were talking about the extension of offices at which notes could be encashed; probably the difficulty that was in your mind is precisely this remittance difficulty, is it not?—Yes, it is.

3333. If the experience of universalisation of notes had shown, or has shown, that that difficulty has not, in point of fact, arisen, would it affect your view of this question of increasing the number of offices?—Not quite. The two things are on rather a different footing. The universalisation of notes merely meant that they could be encashed at the head currency offices. As you know, we keep very large amounts of coin ordinarily at the currency offices, but we do not do so in the case of the treasuries. We have never been in the habit of doing so, and to do so we would have to increase the coin reserves.

3334. The distances between the different currency offices at present are very large, are they not?—Yes.

3335. In order to protect ourselves against the excessive use of notes in remittances we arranged when they were universalised to give transfers?—Yes, we did.

3336. At a nominal rate?—Yes.

3337. Do you agree that that is a safeguard?—Yes.

3338. And it is a safeguard that would not apply to any great extent between two adjacent places?—It probably would not.

3339. Do you not think the possibility of a political crisis is a possibility which, in the circumstances of India, has got to be very seriously considered?—It has.

3340. Would that affect your view as to the extent to which it is desirable to carry the fiduciary portion?—Do you mean the extent of the investment?

3341. Yes?—If the reserve is safely invested, if the investment is in securities which are easily realisable in England, for instance, would it affect it seriously? Are they not nearly as good as gold?

3342. Is not this necessity of encashment one which conceivably might come on Government very rapidly? If at any time the stability of the Government were threatened in any way, might there not be an absolute rush to get the Government notes encashed?—Of course, there might; it is possible.

3343. What I want to bring out is that it is not merely a seasonal need that would have to be provided against, but also the effect of some such circumstance as I have put to you?—I quite understand that.

The witness withdrew.

At the India Office, Whitehall, S.W.

NINTH DAY.

Friday, June 27, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. ALFRED CLAYTON COLE called and examined.

3344. (*Chairman.*) You were, till quite recently, the Governor of the Bank of England?—Yes. I gave up that office in April last.

3345. I think you appear here to-day as representing the bank?—Yes. I should like to say that the governor of the bank was asked to nominate someone to represent the bank. I wish the Commission clearly to understand that the bank is only too willing, indeed is desirous, to help the Committee in any way that it can, but when I was asked to write what you may call a précis of evidence, we wrote back to your secretary that while the bank is perfectly willing to answer any questions to the best of its ability, as we are the bankers of the Indian Government we do not wish in any way whatever to appear here as their critics.

3346. I think the Commission quite understand the position, and we are very much obliged to you for coming?—I will endeavour to answer, as far as I can, any questions that are put, but if there should be questions to which you should desire what I will call a considered answer from the bank, of course I must ask for them to be submitted in writing, and then I will consult the bank. I represent the bank, but it is difficult always to represent the opinions of 26 people. As far as concerns those questions which turn on the points in the paper that was handed to me by your secretary, I think I can probably give you what is the opinion of the bank. Any other questions that may arise, you will quite understand, may require a little consideration, and I may ask you to let me give the answers possibly later on on behalf of the bank.

3347. We quite understand that. The first question I want to ask you is a general question which, I think, lies at the root of a good many of the subjects we are inquiring into. Can you tell me in outline what are the relations between the Indian and the London money markets?—My reply to that question would be that there are no direct relations between the London and Indian money markets. The discount rate in London affects the exchange rates, and any gold demand for India hardens the discount rate in London, that is to say, there may be a considerable indirect effect. If you ask, are there direct relations between the Indian and the London money markets, personally my answer would be in the negative. That is a question which you may better address to the Anglo-Indian banks, no doubt many of whom you will have before you.

3348. Do you regard the present system, by which a Government department through the Secretary of State lends money to the London money market, as open to objection in principle?—Yes, I do; that is to say, I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade. The loans in the market of the Indian Government are very large. I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately 11 millions. That is money which, in the London money market, you can hardly describe as good money, because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market. The India Office lend the money at the best rate they can get, quite independent of what I call the considerations affecting the London market proper; therefore, that money may be lent, and is at times lent, in a way which is disadvantageous certainly to the Bank of England, which has to look after the gold reserve of this country.

3349. Will you develop that a little; in what way is it disadvantageous?—The India loans are made by the broker, and he lends, as I said, at the best rate he can get; and that rate at times is, I should say, below what it is desirable in the interests of maintaining the discount rate in London that it should be lent at. We had a case quite recently in which the India Office was lending money at rates which to us at the bank looked to be too low. You have, therefore, a big lender lending money which is at call, and at times—I do not say it often happens, but it does at times—acting quite against the central institution which is responsible for the maintenance of rates. As you will well understand, if the discount market get cheap money they will put down the rate of bills.

3350. Your criticism is that it weakens the control of the Bank of England over the money market?—At times it undoubtedly does.

3351. And that that control is the only buttress for the gold reserve of England?—Quite correct; therefore it may be, and it does at times—not often though—work against what we consider the interests of this country.

3352. In so working against English interests—you will understand what I mean by that phrase—do you think that it incidentally is disadvantageous to India, or is the profit all on the side of India and the loss all on the side of England?—That depends upon how the money is raised. If you raise the money by bills and the Indian Government has had out some five millions of bills, I should think that it was paying a higher rate for the discount of those bills than it was getting for its money. If that balance is accumulated here merely out of Council drawings, I am not able to say whether the rate that they get for their money is or is not higher than what they paid for it. That is a question which the India Office can answer and not myself.

3353. To the extent to which the money is raised through the sale of Council bills and telegraphic transfers, is it correct to describe it, as I think you did, as money raised in London? Is it not merely the payment by London of a debt through the Secretary of State instead of a payment by London direct to India?—Probably that is the case. Undoubtedly payment of the drafts has to be made in India, and in that sense it, of course, is money raised in India and not in this country.

3354. The alternative to the sale of those bills and drafts would be the shipment of gold to India, would it not?—It might be so. It does not necessarily follow that the gold would be shipped from this country, but that might be the result.

3355. Do you mean that it might be a shipment of Australian or Cape gold?—Yes. London is the financial clearing house, and it does not necessarily follow that it would have to come from here. In these days of telegraphic transfers there is a good deal of business done from Australia to India, and that takes the place of a shipment from here.

3356. When you get to the bottom of it, though it may pass through intermediate stages, is it not in truth and in essence the payment of a trade debt owing by London to India?—Owing by somebody to India.

3357. Where the money so raised is represented by Indian Treasury bills, am I right in thinking that those would be raised in anticipation of the Secretary of State's capital requirements?—I know nothing of that. I cannot give you any opinion as to what the Secretary of State's requirements are.

3358. You only know that they are raised?—I only know that.

3359. Were you referring just now to the loan made in 1908 or some more recent transaction?—I was referring to India bills which were in the market for a considerable time; I do not know what they were raised for, but they were raised, and I should have said they might have been paid off earlier than they were paid off. The bills I refer to were paid off about last year or the year before.

3360. I think those were raised in the famine year of 1907-8. Has this system of loans on the London market any effect upon the success or otherwise of Indian loans raised in England?—The system of lending money in London does not damage Indian credit. A man who has any funds and who wants to borrow is in a better position than a man who is bound to borrow.

3361. In making these loans against approved security, the Indian Government has been accustomed to advance on the face value of its own securities, on the market value of the best British Government securities, and at 5 per cent. below market value on the next class of securities—all, of course, being a very high class of securities. It has been represented to us that this preference given to their own securities is on the whole desirable as tending to help them to place their loans at good rates; do you agree with that view?—I agree with the view that it assists those loans, decidedly. In the market, so to speak, looked at from the Bank of England point of view, it makes those stocks into a kind of what are called "floaters."

3362. Of course, *primâ facie* it strikes one as curious that they should take an Indian security at its face value even though its market value be below it, and that they should take a British Government security only at its market value. Would you advise the continuance of that practice for the reason you have just given?—I was not aware that it was done.

3363. These are the details; "India debentures, "India bonds, and guaranteed debentures of the several "Indian railway companies, are taken at their par "value. Treasury bills, Exchequer bills, Exchequer "bonds, India sterling bills, Metropolitan Water "Board bills, and London County bills are accepted at "their market value, instead of their nominal amount" (*see* Appendix XI., paragraph 5, page 310); and then India 3½ per cent., Metropolitan Consolidated Stocks, Corporation of London debentures, and the bonds or bills of Colonial governments and others are accepted at 5 per cent. below their market value?—I should say that to take a security at par value when it may be 10 per cent. below par is bad finance. Personally, this is the first time I have ever known such a thing was done.

3364. (*Lord Faber.*) It is not as much as 10 per cent., but the principle is the same—more is lent on it than it is worth?—That is bad business then.

3365. (*Chairman.*) It was represented by a witness to whom we put that question, that as the Government of India was both a borrower and a lender, on balancing its two interests, it was worth while to take this risk as a lender for the extra advantage which the Indian Government got as a borrower; do you think that is sound?—No, I do not. I see they have put in Colonial Government securities. We, at the Bank, have never accepted Colonial Government securities as floaters, and I imagine that those Colonial Government securities have only been put in because the India Office broker finds a difficulty in obtaining sufficient other securities. In so far as the Indian Government are taking those Colonial securities, they are departing from the principle that we have always held at the bank, that those floaters should be confined principally, though not entirely, to British Government securities. Therefore, in that respect I should say the India Office in this action are working against the interests of the British Government.

3366. Do you include the large British municipalities with a population of over 500,000, whose stock is put here in the same class as the stock of Colonial governments?—Do you mean at the Bank of England?

3367. Yes?—We only include municipal stocks when they are domiciled at the Bank of England.

3368. Has India, in your opinion, borrowed too much of late?—Our answer to that question is this: India has probably not borrowed too much; but the fact that it is known that she will continue to borrow annually does naturally tend to keep down the quotations for her loans. I would like to add that if India at any time requires money on a large scale, she would probably have to issue a loan with a fixed date for redemption.

3369. Can you give me some indication of what you mean by a large scale? I can see that it must be an elastic figure?—I mean if she came in and asked for 25 to 30 millions. The big investment world now, which includes the bankers, and so on, are undoubtedly giving a preference to loans with a fixed date for redemption.

3370. That would apply, therefore, to other borrowers as well as to India?—Undoubtedly. I would go so far as to say that, if this country, unfortunately, were at war, and we wanted a large sum of money, I think you would have to alter the system of borrowing by this country.

3371. Has the credit of India declined relatively to that of other borrowers?—I think not, if you compare the quotations for her loans with other trustee investments which have no fixed date for redemption. All the Colonial loans have a fixed date for redemption

and from some figures that I had taken out, because I thought you would ask this question, it seemed to me that Indian securities had gone down more than Colonial securities, and I think that is the reason of it. If you compare the decline of Indian Government securities which have no fixed date for redemption with other trustee securities of a similar class, that is to say, where there is no fixed date for redemption, but which have gone down, I do not think the result will be found adverse to India. But I should think you have already had that question answered.

3372. May I return for a moment to what you were saying about the Indian money loaned out on the London money market, and to the inconvenience of the practice in certain respects? Would what you have said about this Indian money apply equally to any foreign money that happened to be on the market, Japanese money for instance?—To any money which is of such an amount that the withdrawal of it without notice would be of importance to the London money market.

3373. Foreign government money on the London money market, if of sufficient amount, therefore would be entirely open to the same objection?—Yes.

3374. Have you anything to say as to the relations which prevail between the India Office and the Bank of England?—The relations between the India Office and the Bank of England have always been most cordial and friendly, and the bank has always endeavoured to assist the India Office as far as possible. Last year, however, as the members of the Commission are doubtless aware, a difference arose between the Bank of England and the India Office over the question of the purchases of silver.

3375. Have you anything to say about that?—No. The details of the differences are public property.

3376. It has been suggested that the Government of India might avoid some of the difficulties they have experienced in the past if they purchased silver fairly regularly, that is to say, if, instead of waiting until their demand is a very large one, they purchased year in and year out a certain more or less average amount of silver. Have you any observations to make on that?—I think they know perfectly well that they will require silver, and therefore I think, having regard to what I call the ordinary prudence of merchants, they should not wait until they are put into the hole.

3377. Have you looked at the figures of the circulation of silver coin in India? I ask because our attention has been drawn to the fact that they vary very much in particular years, and that the amounts required as between two succeeding years have varied as much as 20 millions sterling?—I have not. I only know roughly that there is a demand for silver in India dependent very largely upon the monsoon, and of course the Indian Government cannot control the monsoon.

3378. It has been objected by some of the witnesses to any proposals for buying silver regularly, that the result would be that they would be in the slack years altogether overloaded with silver?—That is a thing on which I have no opinion. That is a matter which the Indian people must settle. We at the bank could not possibly have an opinion on that, because we know nothing about it.

3379. To turn to quite another subject, I think you know that there have been suggestions for the creation of a State bank in India; have you formed any general view on such a proposal?—I think the question there rather is, what do you mean by a State bank? Do you mean a central bank or do you mean what I call an official State bank?

3380. Let us take both alternatives in turn. Suppose it meant merely a central bank?—On that point I should say the opinions of the bank differ. I think, as the Commission are aware, one of our directors is a strong advocate for the founding of a central bank in India.

3381. Is that Sir Edward Hambro?—Yes; that central bank to be with or without a branch in London. The position of other directors is that while not directly opposed to the foundation of a central bank, they are willing to leave matters as they are, as they see no necessity for a central bank. On that particular point you will not get unanimity of opinion among 26 people.

3382. If it meant a State bank in the strict sense of the term, what would be your opinion then?—A State bank in the strict sense of the term would probably be what you have got now, that is to say, you would have a department of the State in which the State would be the shareholder, and that would run the finances of India much as it does now. The whole object of a central bank would be, to my mind, to take the practical financial control out of the hands of the Government and make that bank the Bank of India instead of what is the position now. I think all the evidence, so far as I am aware, makes out that the Government are the principal bankers in India.

3383. I conceive that the object of a State bank would be to discharge the Government from its present liability for managing exchange or the sale of Council bills and transfers, and for the management of the currency?—I can see that a central bank which is going to take the control out of the hands of the Government might be a very desirable thing, but at the same time I do not quite understand how in India, which is a continent and not a country like this is a country, you are going to have a Bank so established that it may make a good return upon its capital. This is a question which has been before the Indian world ever since the Fowler Committee, and, as I gather, the opinion over there is that the time is not yet ripe for it; but without my knowing the view on the other side, I personally am not prepared to give what I call a decided opinion upon it. To argue from India to England is arguing upon two things which are not quite alike. Here in England we have got a central bank which performs functions which it seems to me could not be performed by a central bank domiciled in one of the Presidency towns, Calcutta, Bombay or Madras, where it would be the main bank. As I say, that is a point upon which, as I have no Indian knowledge whatsoever and have never been there, I am not prepared to formulate a very definite opinion.

3384. On the whole I gather you think the currency business and the exchange business is done very well by the Indian Government at the present time?—I have no criticism to make on the subject.

3385. Do you think it would be likely to be better done, and to be less open to criticism if it were not in the hands of Government officials whose special training for the purpose must necessarily be somewhat limited, and if it were placed instead in the hands of banking experts?—If you could get them, I think probably it would be better run, but, as I say, I have no definite knowledge. The people who have been out in India tell me there is a practical difficulty of getting a sufficient permanent body of competent men to run a bank, entirely apart from what I would call Government interference; but upon that point, as I say, I have never been to India, and I cannot give you a definite opinion. In theory I think everybody would say it is better that the banking business should be done apart from the Government; but when you talk of a bank, you have got to get the capital for it, you have got to get your shareholders, and you have got to get your board of management, and I am not prepared to say, one way or the other, that that is possible in India at the present moment.

3386. Suppose such a central bank were established as you have been speaking of. How much Government control over such a bank would be necessary or desirable?—I think the answer should be, the less the better.

3387. Is that possibly a reflection of English circumstances on Indian conditions?—Possibly, but that would be my answer to that question.

3388. As regards the establishment of a gold mint in India, have you formed any views on that subject?—I am not personally opposed to a mint coining gold in India, but so long as sovereigns are taken for the currency, local minting seems unnecessary. As regards a mint, if India is going to use coins minted here, she ought to pay for what I call keeping them up to proper value, that is to say, any loss on those coins

should not fall on this country, but should fall on the country where the wear and tear takes place.

3389. Suppose that mint were established in India, do you think that much gold would be taken there to be coined?—I imagine they would coin the gold they produce.

3390. Sometimes the gold mines there are under contract to send all their gold to this country for a period?—Their gold, I think, still comes to this country, but I imagine the ultimate result would be that they would coin their own gold.

3391. Do you think a mint in Bombay, for instance, would attract South African gold?—If India wanted gold for its coinage, yes. I should say South Africa is nearer to India than it is to London, slightly.

3392. I gather from you that your view is that the mint would not have any effect on the coinage, but the coinage would have an effect on the mint?—A mint, *quâ* mint, cannot increase the circulation of gold except very temporarily. It might very temporarily increase it in this sense, that it might supply a deficiency of coin if it could turn out that coin more quickly than it could get it, say, from this country; but *quâ* mint, a mint cannot increase or decrease the circulation of gold.

3393. Supposing that Indian opinion were in favour of the opening of a mint, have you strong views, either way, as to whether they should coin sovereigns or rupees?—Personally I think they had far better coin sovereigns.

3394. That, of course, would make the establishment of a mint in India a more costly experiment, owing to the control required by our Treasury?—That I know nothing about.

3395. Perhaps you would agree with other witnesses who have been before us, that after all, what the currency medium is to be must depend upon the demand of the people of India, and the Government must supply whatever the people ask for?—Yes, I imagine so.

3396. But in so far as Government can influence the circulation of one form of currency rather than another, do you see any advantage in increasing the amount of gold in circulation?—The increase of gold in circulation has this advantage, that in case of the balance of trade being against India, if a large amount of gold is in circulation, that gold can be exported.

3397. Do you think the gold that is in circulation is of much value for the support of exchange in a time of crisis?—I should say so, undoubtedly.

3398. You think it comes out, do you?—That is my impression. As I say, I have no knowledge of Indian conditions over there, but if you have got gold in the country, and the people are impoverished and that gold returns from circulation, then undoubtedly from the Indian point of view of maintaining exchange, that gold is far more useful than rupees which have to be melted and sold at bullion value.

3399. The point, of course, is whether, having gone into the pockets of the people it will come out at the time you want it?—That is a question which you must put to an Indian, not to me.

3400. We have had it in evidence, I think, that in 1907-8 about 4¼ millions of gold was issued, and that of that only a quarter of a million was exported and went to the support of exchange?—That would be about a sixteenth of the whole. If you had 16 millions in circulation, then you would have a million on that basis for export.

(*Mr. Gillan.*) I think it was a sixteenth of the issue of that year, not of the whole.

3401. That is rather a costly load to carry for such small results, is it not?—But you have got to have something in circulation. You will not get the profit on the silver, I admit.

3402. A paper currency would be much less costly than that?—Yes.

3403. (*Chairman.*) I come now to the Gold Standard Reserve. I think you know generally, in fact I am sure you know, what the position is. Do you approve of the way in which it is now held, or should, in your opinion, more of it be held in India?—I should say I have a very decided opinion upon that point, and it is this: Up to last year I believe no gold was held in India in the Gold Standard Reserve, but the Gold Standard Reserve was entirely invested in securities. You ask whether it should be held in India or in this country; so far as any gold in the Gold Standard Reserve is to be used for maintaining exchange, it should be held in this country and not in India.

3404. Will you give me your reason?—Because for the purposes of exchange, bills, as they were in 1907-8, would have to be drawn upon London, and if the gold is not here it will have to be sent from India to meet those drafts. It is far better and simpler to have the gold here, and not to have to send it at the time when you are drawing drafts.

3405. Do you object to holding any portion of the gold reserve in securities?—No, provided you start with holding gold. That, I believe, has been recognised now. I understand that—I believe it was only last year—the Indian Government have decided to hold five millions of gold in the Gold Standard Reserve. Last night—I had the figure taken out at the bank—they had 1,730,000*l.* in the Gold Standard Reserve; therefore they have made a beginning. That sum, I understand, they are going to make, under their present arrangements, up to five millions. The original intention of the Gold Standard Reserve, I believe, was that the whole of it should be held in gold. That I do not think is necessary when you get beyond a certain amount. The question is what amount is desirable—whether the five millions, that is the proposition—is sufficient. Personally, I should say that the five millions would not be sufficient, and that it ought to be 10 millions, unless the Indian Government clearly see their way in an emergency to use the gold that they hold in the currency reserve. They have got in their currency reserve to-day 6,100,000*l.* here, and provided they can see their way to make use of that gold there is no object, and never is any object in banking business, in sitting upon a mass of unnecessary gold.

3406. When you say that they must see their way to make use of that gold, do you mean that in case of crisis they should ship it at once from India?—They have got that here; we have got 6,100,000*l.* of it in the bank. What I am looking at is this. In 1908, when trade was adverse to India, the Indian Government had to sell out something over seven millions of their Gold Standard Reserve securities—you have got the figure; it was over 7½ millions, I think—and a similar contingency must be provided against in fixing the amount of gold they would hold here, because you will probably come on it later. If the storm centre of financial difficulty, which fortunately in that year was in New York, had been in England, the Indian Government might not have been able to sell their sterling securities at all. Of course, they could have sold them at a price—I mean, a give-away price. That holding merely of sterling securities is not only a danger to the Indian currency position but to this market also. Fortunately in 1908 the storm centre was not in London and the difficulty was got over, but when the Government is making its regulations for its currency they ought to be made in such a way, to my mind, that they provide for all eventualities, and in that respect India should bear its own burden and not throw that burden upon the London market.

3407. Do I understand your view to be that in one form or another India ought to have in actual gold the largest sum which you conceive she may need in a bad year?—That is practically so. I think beyond that it is quite reasonable she should invest her Gold Standard funds. They cost nothing; they are pure profit out of the silver, and they have never cost India a fraction. But provided that what I call a reasonable sum is held—and as this Gold Standard costs her nothing it ought not to be what I call cut too fine—provided she holds a sufficient sum, I think the rest can reasonably be invested in securities. But I tell you from my point of view, or at least the bank's point of view, that gold should be held in this country and not in India.

3408. You, I think, put the sum which you consider would be required for the purpose, or which it would

be reasonable to have for the purpose, at something like 10 millions or 11 millions?—I am looking at what happened in 1908, when something between seven and 10 millions was required—I do not know exactly what it was, but it is known to the Commission. India, to my mind, ought to hold definitely in gold a sufficient sum to meet such a contingency in the future.

3409. Do you think that is quite sufficient? You say that at that time New York was the storm centre; the storm was very severe there, and the crisis was very widespread. It was coincident with a famine in India. but that was, I think, by no means the worst of the famines that India has experienced. Suppose that that financial disturbance in New York and the rest of the world had coincided with a very bad famine in India, or with a period of war in India, would it be safe to take as the measure of her possible requirements what she actually needed in 1908?—No. I guarded myself against saying that that amount was specific. I said she had got to provide for what I call any probable contingency.

3410. As regards the remainder, have you anything to say as to the class of securities in which it might be invested? Would you confine it to short-dated securities, or would you allow them to take, as they did at one time, consols?—They would prefer undoubtedly to take short-dated securities—I think I mentioned that before—because the depreciation on those is very small. Therefore, from the point of view of not having any loss on securities, undoubtedly they had better take securities with a due date, but I should not what I call definitely preclude them from taking other securities, such as their own; they have got their own which have not got a due date, and I do not know that you should rule them out.

3411. You put it very fairly, I think, that India ought to be prepared to save herself in a time of crisis, and not rest her weight on us. If all this gold is held on Indian account in England, is it held in London in addition to the gold that would otherwise be here?—Absolutely.

3412. And it is not taken into account in any market calculations here?—Not at all. It never appears in the Bank of England accounts as published, and it is quite incorrect to say that the market here takes it into any account at all. In dealing with this question there is one point I would mention; it is only a matter of detail, but I think as I am talking about the Gold Standard Reserve I should mention it. It is merely a question of the form of accounts, which I raised in 1909. In the Gold Standard Reserve the Indian Government put in their statement "Cash placed by "the Secretary of State for India in Council at short "notice." I have objected, and strongly objected, to that; it is a contradiction in terms to state that you have cash at short notice. Cash ought to mean coin, bullion, or bank notes. While I have never thought it makes very much difference in the accounts, say, of English banks, I raised the objection because I do not think a Government department ought to use words loosely, and the one thing about money on short notice is that it is not cash. I see they go on in the same way, but I call attention to it because I think it is wrong, and I do not think Government ought to use a wrong word in that sense. I have told them it is not cash, and, as a fact, there have been times when the India Council called for the money, and they could not get it; therefore it cannot be cash.

3413. One of the witnesses who has appeared before us seemed to think that securities, short-dated securities especially, were just as good for the purposes of this reserve as gold, and he presented an argument that what was needed in a time of crisis was not actual gold but what you call bankers' money, and that these securities fulfilled that purpose quite as well as gold; I gather that is not your view?—Certainly not—not in a time of crisis.

3414. Their realisability in a time of crisis rests on what, ultimately? Does it rest on the gold reserve of this country?—I should say it rested on the power of the Bank of England to advance money to buyers to pay for the securities.

3415. Therefore, in the last resort, on the gold reserve of the Bank of England?—Undoubtedly.

3416. Your argument I think is, as I put it just now, that in a time of crisis you do not claim that India should support the London market, but that it should not be an additional drain upon it, and should carry its own burden?—It should carry its own burden.

3417. I want to ask you a couple of questions about the paper currency system of India. Do you think it would be an advantage if some steps were taken to give it greater elasticity?—Not having any practical knowledge of Indian finance, that is a difficult question for me to answer. I do not quite understand the expression "to take steps to give it greater elasticity."

3418. The conditions under which notes can be issued are at present very strictly limited; would you allow the fiduciary portion of the issue to be extended by the Government of India under any circumstances or conditions?—That is a question which it is a little difficult for me to answer in this respect, that I do not know how far or how near India is getting towards a cheque system. As regards the fiduciary issue, provided you have got the fiduciary issue below an amount which can never go back to the Treasury, there is no objection to that fiduciary issue. The Act of 1844 fixed the fiduciary issue in this country at 14 millions. That has nothing whatever to do, as many people suppose, with the Government debt, or anything of that sort; it is simply an amount below which it was thought that the issue would not come back to the central institution; and that has proved to be correct. Owing to the cheque system, which of course has been an admirable thing for this country and a most admirable thing for all finance, the note issue of the Bank of England to-day instead of increasing is rather inclined to go back; it has practically remained stationary for the last four or five years. When you are dealing with India, which is, in a sense, from a banking point of view, an entirely new country, it must not be lost sight of that the introduction of a cheque system in India would probably materially reduce the note circulation, which has undoubtedly increased and is increasing. I took out the figures of the note circulation the other day, and as far as I could see, the active note circulation has more than doubled in the last 20 years. Therefore from that point of view you can see that you can safely give the Government increased fiduciary issue powers. But while I say that, if you are going to have a development of banking, and if you are going to have a cheque system introduced into India, you cannot then count upon an increase of the note issue in the future as you have done in the past. That, however, is a practical question on which you must ask those who know India, not me. I have been told—and I am only telling you what I have been told—that banking and cheques are increasing in India. I think it would be incorrect to have the fiduciary issue in India increased in a way that might ultimately lead to possible trouble. Of course when you are dealing with India, if it be found in the future that the fiduciary system should be reduced, well, you can reduce it. At the present moment I believe the active issue in India is about 44 crores, and the fiduciary issue is 14 crores—roughly a third. If you are going to get the note issue up to 60 crores, then you can say that that fiduciary issue might be increased to 20 crores, provided it is recognised that if the issue goes down, steps should be taken to carry out the principle of reducing the fiduciary issue strictly, because you do not want to have the slightest doubt upon your note issue. Here in this country if it had not been for cheques, probably the note issue of this country would have been as big as it is in France.

3419. If it had that effect could you maintain the conditions of the Bank Act? Suppose cheques had not come in to give, as it were, this aid to your fiduciary issue, would you not have had to increase the fiduciary issue?—I do not think so. Why should you? Over the course of, roughly, 70 years that have passed since 1844 this country would have got all the gold it wanted for its notes, and there would have

been no reason for increasing the fiduciary issue. You could not get a big issue of notes against gold in this country, or any country, suddenly, but you can do so gradually. Over the 70 years you would have had gold accumulating in this country —35 millions or 40 millions up to 120 millions or 130 millions—just in the same way as they have in France.

3420. (*Lord Faber.*) I gather that the India Office broker sometimes appears to lend money below the market; could you say at all why he does that?—I do not think that he lends it below the market, but he always lends it below the bank rate. He gets, no doubt, the best rate he can, but practically I should say he always, as far as I know from the accounts, lends it, and therefore he has got to take the best rate he can get.

3421. Then it is really that the market know that he has got to lend the money out and will take what they offer him?—That is about it.

3422. If he held off the market and screwed it up two or three times and they did not know whether he was going to lend it or not, would that not help him in the long run to get a better average?—It probably would. If he would not lend below certain rates he would lose temporarily, but in the long run probably he would be recouped.

3423. I think the broker rather gave us to understand that he had a difficulty in lending on the special security which the Indian Government ask for, and that it was rather a tie that the Indian Government demands that security?—That is merely because the amount that he has got to lend being so large the security is not there against it. He would have no difficulty whatever if instead of lending 11 millions he was lending five millions; there would be no difficulty about the security then. It is only because he has got such big sums to lend that there is a difficulty.

3424. There is one rather important question. If India lends money on deposit to the big London banks, do you think it would be unreasonable for India to ask for security?—No.

3425. I suppose that all banks, even the best of them, at times do have to come to the Bank of England to borrow money temporarily, and then the Bank of England gets security from them?—Yes, should a bank borrow.

3426. As regards a central bank for India, I gathered from what you said that you thought the country was perhaps too vast for a central bank to do much good?—I do not say that. I say it is not a question that I can answer as I have no practical experience. What I felt was that you cannot argue from a small country like England, or, we will say, a country like France, and say that what suits that necessarily will suit India. I will not go beyond that, because I have not got the knowledge to form an opinion.

3427. (*Sir Robert Chalmers.*) You spoke about the Indian balances, or loans, as not being, if I caught your word rightly, good money. You meant, did you not, that it is used for purposes which are rather outside those of the London money market?—It is entirely outside what I call the ordinary English trade requirements. Indian money is no different to Japanese money, or any other money, but it has what I call nothing to do with British trade. It is a thing which is entirely outside.

3428. Then you raised the point that at times it tended to be lent cheap; and that was raised also by Lord Faber's question recently. Therefore, you concluded that those balances being in London tended to be detrimental to the Bank of England rather than beneficial?—That they have been loaned out in this way in London undoubtedly is so, but only at times; in the ordinary course of business they do not make any difference one way or the other.

3429. You do not agree then at all with the criticism which is advanced in some quarters that the use and location of those balances in London is a boon to London and a boon in proportion to the size of the balances?—It might be held that it is a boon to the trader by lowering the rates of discount, but it is not a boon from the Bank of England's point of view of maintaining the gold reserve of the country.

3430. Which would mean the ultimate financial condition of the whole Empire?—We, rightly or wrongly, have taken upon ourselves the duty of maintaining a gold reserve in this country, and anything which conflicts with the action which we consider necessary at times—and it is necessary at times to stiffen rates to maintain that reserve or to increase that reserve—necessarily conflicts with the bank. I do not mean to say that it always conflicts with the bank, but it does at times.

3431. Take the case of the Gold Standard Reserve; you said that that should be kept in London?—I said such portion of that Gold Standard Reserve as is accumulated for the purpose of maintaining the exchange. I believe the Gold Standard Reserve is used for other purposes—at least, it has been; but that is its main object. In so far as that is accumulated for exchange, that gold should be held in London rather than in India, because you would have to send it over to London if it is going to be used, and therefore you may just as well hold it here.

3432. Do you take that view having regard to the interests of India, and without any reference to the possibilities of its being of any use to the London market?—Absolutely.

3433. You are looking exclusively to India?—I am looking at it exclusively from the Indian point of view.

3434. You went further, I think, and said, as regards that amount of the Gold Standard Reserve which is held in securities, it might be a distinct menace to the London money market?—If those securities had to be realised in a crisis.

3435. Whereas any gold here would be earmarked, and would not be a danger, because it would be outside the metallic reserve which is maintained by the Bank of England?—It would be absolutely outside that.

3436. As regards the coinage of gold in India, there would be no coinage in India if there were a coinage charge imposed in India, is that not so?—I do not know.

3437. I am asking you for your opinion. If you can get gold minted free in London, would you get it sent to the Indian mints if there was a coinage charge?—Not if the coinage charge exceeded the amount which you have got to pay for freight and the other charges to get that gold out there.

3438. Now, as to the currency notes and the fiduciary portion of the fund in India. The conditions of the issue department of the Bank of England restrict the bank to investment in certain very clearly defined securities, I believe—I am simply giving the Bank of England as a comparison?—Are you referring to the fiduciary portion of the Bank of England?

3439. Yes?—I believe that there are no restrictions as regards what we should invest in for our fiduciary issue.

3440. As regards the form of security that you put your money in, are you not limited?—There is nothing in the Act which restricts the bank. We have always invested in British Government securities, or securities guaranteed by the British Government; but I think I am correct in saying that the bank has done that because they thought it was a right thing for them to do, and that they are not restricted by law from any investment. You are raising the question of what I call the strict legal power, are you not?

3441. Yes?—I would not like to give an absolute opinion without referring, but my impression is that there are no restrictions.

3442. Has the bank, so far as you are aware, ever contemplated investing part of the money belonging to the fiduciary portion in such things as trade bills or in advances to bankers?—No.

3443. It has never been contemplated?—Never. The profit on the fiduciary issue, as you are aware, goes to the country and it does not go to the bank.

3444. So you have never contemplated it?—Never —we should not dream of it.

3445. A proposition was made before the Commission that in India a portion of the fiduciary investment should be in the form of advances to banks for short terms; are you prepared to express any opinion on the policy of that proposition?—Do you mean without security?

3446. No, not without security, but on Government securities deposited?—I should like to think that question over before giving you a definite answer. That would be in a sense merely an increase of its fiduciary issue, would it not?

3447. No, not an increase but a substitution. I will express it, as I understand the proposition, in the terms of this country: You would not buy consols but you would lend to a bank on the security of consols for a short term out of the fiduciary portion of the issue?—I think there would be objections to that, certainly there would be theoretical objections to it, and I am rather inclined to think there would be practical objections. If you like to put the question in writing I will consider it. That is mixing up what I call issue with banking.

3448. *Primâ facie* you are not attracted to it?—*Primâ facie* I am not in favour of it.

3449. You are not attracted to it, I said?—No. I am not attracted to it.

3450. (*Sir Ernest Cable.*) In reply to Sir Robert Chalmers just now I think you admitted that the lending out of India's balances was a benefit to the London market?—I admitted that the lending of large balances here puts down the discount rate, and usually is a benefit to the trader while it goes on; but the liability to have that money withdrawn is not a benefit to the market.

3451. And, of course, it is an unmitigated benefit to the Government of India to be able to lend out these balances here which they are unable to do in India?—They are getting interest undoubtedly on their money, but as to whether that pays them or not you must ask them the question, not me, because they have had to pay something for raising that money.

3452. I am talking of the superfluous balances—such balances as we have?—Yes, if it is merely a question of getting interest on superfluous balances. But I should like to ask this question. Is there any similar system in India—I am asking for information—to what we have in this country, under which surplus revenue goes to the redemption of debt?

3453. (*Chairman.*) There is no system exactly comparable to ours, but as I understand our witnesses, the surplus revenue is either used in the extinction of existing debt, or in the prevention of fresh borrowings. You have to start with the fact that the Indian Government is, as you say, continuously borrowing for reproductive or for capital expenditure; and the surplus, being used to redeem such short-dated securities as you spoke of in a part of your evidence, goes to prevent the amount of the fresh borrowing being as large as it would otherwise be?—My difficulty is to see why it is necessary for the Indian Government to have such big balances permanently here.

3454. (*Sir Ernest Cable.*) I was going to carry that one point further—that it not only benefits the London discount market, as you suggest, and also the Government of India in the way of revenue, but that in addition the reduction in the discount rate in the London money market does benefit the Indian trader, because it stimulates trade. There is therefore a third benefit to India judged as a whole; you would admit that, I think?—Low rates of money undoubtedly always stimulate trade, but it does not necessarily follow that there is a benefit; you have got to look at the ultimate result of these things. If you have large sums of money lent in this country which are liable to sudden withdrawal, then they are an upsetting feature, and probably the result of that upset may entirely extinguish the previous advantage.

3455. With regard to the State bank, I think you made use of the expression that the time is not ripe for it; do you mean to suggest by that that at some later date it might be advisable?—I think what I stated was that the fact that it had been before the Indian authorities and not adopted ever since the Fowler Committee showed that in their opinion the time was not ripe. As I said before, speaking for myself, I have no special knowledge as to this question. I discussed it a great many times with Sir Edward Law, whom I knew very well, and I think on the whole he was in favour of it, but I think he was rather of opinion that the time was not ripe. Mind you, I am not giving you my opinion, because I have not got what I call a formulated opinion; it is only the opinion of those who have been out to India. I can tell you what is done here in London, and I can give you practical views of our own money market; but the other side, no, because I have not got the experience.

3456. You could perhaps give us your opinion as to whether, as India is developing and growing in resources, it might not be a very much more difficult project to carry out, say, in 20 years' time than at present?—It seems to me that you have got the nucleus in India of a central institution, because you have got three Presidency banks. I suppose it is quite possible to join those up if it is thought desirable to do so, and then you have got your one central institution. But there is a distinction in my mind between a State bank and a central bank. The State bank presumably means that the whole of the capital belongs to the Government, and therefore it has got to be run by Government, because the Government will not hand over a large sum of money to private individuals to run for them. Whether the conditions allow of a separate central institution, as you have got in this country, I cannot say. I can only say that, as far as a State bank goes, you have got the nucleus of it in your three Presidency banks.

3457. You expressly doubted also whether the State bank or the central bank would be a paying proposition. I should like to ask you as a banker of eminence whether it would be legitimate in a new bank of that sort to have a portion, perhaps a large portion, of its capital in debentures which might make the share capital quite a paying investment?—But you have got nothing to issue debentures on.

3458. On the capital as security?—A debenture is only a debt, and there is no security. What you want in India is a bank big enough to give security for the Government to bank with it.

(*Sir Ernest Cable.*) The Agricultural Bank of Egypt has a debenture debt, I believe?

3459. (*Lord Faber.*) But that might be founded on a particular class of security—the land?—An agricultural bank probably could issue debentures, that is to say, a mortgage upon something in its possession; but an ordinary bank has nothing. A debenture proper ought to be a mortgage, and therefore it is a liability, not an asset. I do not see how that is possible.

3460. (*Sir Ernest Cable.*) Debentures are a liability, and so is capital a liability; it is merely another way of putting it?—I beg your pardon. Capital is a liability undoubtedly, but the shareholder is responsible. The debenture holder is a creditor of the concern; the shareholder is part of the concern itself. The two positions are totally distinct. I am putting it this way—if I am a shareholder in the concern, I am responsible to the debenture holders.

(*Sir Ernest Cable.*) They have a prior claim certainly.

3461. (*Lord Faber.*) To put it in another way, the debenture man comes first, and he has got to be paid and all the capital has got to be exhausted to pay him?—That is so.

3462. (*Sir Ernest Cable.*) You made use of the expression with regard to India's gold reserves that she should bear her own burden; I suppose you mean by that that India alone would benefit by those gold reserves. I put it to you whether in a time of crisis the whole Empire would benefit by the stability conferred by those gold reserves of India?—I do not see exactly where the benefit comes in. What I say is, India should run its finances, so to speak, by playing the game off her own bat.

3463. (*Mr. Keynes.*) When you expressed the rather paradoxical opinion that the Indian cash balances in London were disadvantageous, were you speaking

narrowly from the point of view of the Bank of England, or from the point of view of the whole of the London market?—I was speaking from the point of view of the Bank of England, and I hope I made that clear.

3464. Your remarks would apply equally to all international banking on a large scale, would they not?—To all international banking on a large scale where a withdrawal of that money would affect the conditions of the money market.

3465. I can understand that if London were to cease to be an international money market the life of the directors of the Bank of England would be a less anxious one; and you are merely stating this as a particular application of that?—I am asked here to give the view of the Bank or England, and I am giving you the view of the Bank of England.

3466. And the view of the Bank of England is that any increase in the extent to which London is an international money market makes their time a more anxious one?—Any increase in the volume of transactions which pass through London for which the London money market is responsible, makes the maintenance of an adequate gold reserve here all the more important.

3467. But you would not deprecate the extension of England's liabilities in that way, would you? You would not wish London to be less an international money market, would you?—No; I want to see England maintained as the international money market, and that it should have the position it holds to-day.

3468. Then you would be sorry rather than glad if India was to give up holding its balances here?—From the point of view of the Bank of England I would rather they were what I call kept within more moderate limits; that is all.

3469. From the point of view of the position of the money market, you would be sorry?—I should not be sorry; it is merely a question of size.

3470. Would you be glad?—From the point of view of the Bank of England, from the point of view that London should not be liable to be drawn upon for very big amounts, I should be glad if the Indian balances were kept within more moderate limits. They rise to, I believe, 18 millions altogether. I am not clear what was done with the 18 millions.

3471. (*Chairman.*) I think we have had it in evidence that the 18 millions, those very high figures, were due to what it is hoped may be found to have been rather exceptional circumstances, and partly also to underestimating the revenue?—I quite agree, but I do not know what was done with that 18 millions here. As far as I can turn it up at the Bank, the loans through their broker have never much exceeded 11 millions; I suppose the balance all went to the banks, and there was no security for it.

3472. There were loans to the banks as well?—We check all the securities at the bank for the India Office, and therefore, we know the amount of the securities. I know the maximum amount of securities deposited at any one time, and I know that the maximum amount of loans to what I call the market have not exceeded something between 11 millions and 12 millions; that is all.

3473. (*Mr. Keynes.*) I only wanted to get the point clear that there is nothing peculiar to India about this, and that in general you deprecate London doing international banking business on a very large scale?—No.

3474. (*Chairman.*) I think you did not deprecate London doing international banking business on a very large scale, but you said there was a danger if these large amounts were suddenly withdrawn?—I say that that is a danger which, if it is possible to avoid it, it is well to avoid; but as long as London remains the international money market it has got to shoulder the burdens as well as the advantages of that. Mr. Keynes' view apparently is that I deprecate London being an international money market; I absolutely correct that.

3475. (*Mr. Keynes.*) I understand there is a disadvantage, but I do want to have your opinion as to whether on the balance it is not an advantage to London to put itself into this position. It makes the problem of the reserves more difficult, but is it for that reason to be deprecated on the whole?—My answer to that is that you have got to shoulder your responsibilities, and on the whole, it is desirable that London should remain the international financial centre of the trade and commerce of the world. What you are dealing with on this Commission is the question of Indian finance, and you are not dealing with anything more.

3476. Your second reason for rather disliking these large balances was that they sometimes had the effect of forcing the market rate down; I suppose that is true of all large lenders in the market?—That is right.

3477. They have not had a different effect in that way from any other large lender?—No.

3478. So that there again, from the the point of view of the market as a whole, you would not deprecate it?—No. It is quite desirable that London should have its lenders as well as its borrowers; it must have them.

3479. The Chairman asked you your opinion as to how far gold in circulation was available to meet a foreign drain, and I think you expressed the opinion that it was of some value?—Yes; I expressed the view that gold in circulation is of some value, because, if you get a famine, gold will not be so much wanted, and therefore it will come back to what I should call the bankers, and then it is available. What I stated was that it is better for India to hold gold which is taken, so to speak, at its face value, than to have it in rupees which have got to be melted and sold at their bullion value.

3480. When you gave that answer were you imagining a case in which India had hardly anything but gold, or in which gold was perhaps a fifth or a quarter of the circulation?—I was not imagining anything. I was only giving you the difference between having a gold circulation and a silver circulation.

3481. Do you mean by a gold circulation one in which nearly all the circulation is gold, or one in which about a fourth or fifth is gold?—My reply was quite independent of the proportion of the circulation.

3482. Then your answer applies even in the case where gold is a fourth or a fifth?—Certainly.

3483. Do you think that when money is returned from circulation it will be the gold rather than the rupees, even when the gold is only a small proportion?—They might come back in equal proportions; I cannot tell you. That is a question you must ask of somebody who has got Indian experience.

3484. Therefore, a certain proportion of the gold in circulation would not be available. The gold would not be available to anything like its full amount in a crisis, and you would not expect, if a fifth of the circulation was gold and a fifth of the currency came back in a time of crisis, that very much of that fifth would be gold?—I should imagine that if a fifth of the currency was in gold and four-fifths were in silver, it might be returned a fifth gold and four-fifths silver. I should say—but I do not know, as it is not a thing which I do know—that probably gold would come back quicker than silver, but that I cannot tell you. Gold is more used, I imagine, by those people who are European managers, and so on; but I really do not know, and it is not a question, I think, that I should answer. It is a question on which you should ask someone who has a knowledge of Indian conditions.

3485. You have not any opinion, therefore, as to whether in Indian conditions, gold, in circulation to the sort of extent I have suggested, would be available, and you did not intend to be expressing an opinion on that?—I only expressed the general opinion that if you have got a large amount of gold in circulation and bullion is required for export, gold is a better thing to export than silver, which has got to be melted down.

3486. With a large amount of gold in circulation, you say?—I am not troubling about the proportion of the amount in circulation.

3487. In the matter of the note issue, I understood that you are nervous about increasing the note issue lest at some not distant date a large number of the inhabitants of India should use cheques?—I am not nervous about anything, and "nervous" is not quite

the correct expression to use. I was asked my opinion as to an increase of the fiduciary issue, and I gave you the point that if cheques are largely introduced into the banking system in India, the note issue would not increase in future years as rapidly as it has done in the last 20 years.

3488. Then you did not mean to be expressing an opinion that that was likely to happen within the lifetime of those who are now alive?—I do not express any opinion on Indian matters, because I can only give you what is the experience here in London.

3489. The Chairman put the question to you that if cheques had not been developed in England as they have been, and if we had used notes as they do in some foreign countries, the system of note issue by the Bank of England would have had to be modified; I understood you to say no, and that we should have gone on just as they have in France?—Yes, that is my opinion.

3490. But you would not maintain that the method of regulating the note issue in France is the same as that in this country?—The conditions of the two countries are distinct, but the method of regulating the fiduciary issue of notes in France is under definite Acts of Parliament, just the same as ours. Of course, the two Acts of Parliament are quite distinct.

3491. And their provisions are of quite a different kind?—That is so; so they are in Germany.

3492. If in England notes were to be used on a large scale, and the Act were not altered, we should have to hold gold almost up to the full amount of the notes?—You have to hold gold to-day for every note issued above 18 millions odd—I can give you the exact figure if you want it.

3493. But that is not the case in France?—That is not exactly the case in France, but I am not prepared to give the Commission any information on that without referring as to what the exact conditions of the note issue in France are.

3494. Is there any note-issuing country in the world which regulates its note issue on the same system as the Bank of England?—I think not.

3495. So that there is some experience for thinking that in a note-issuing country some different system is desirable?—Of course, I think ours is the best; therefore I do no think any different system is desirable.

3496. Do you think that the business of the world could be done if all banks adopted the Bank of England system?—The business of the world would be done. Whether it would be done on the present scale is another matter.

3497. Sir Robert Chalmers asked you your opinion as to holding some part of the cover for the note issue in bills. Is there any country in Europe except England which does not use bills as a part cover of its note issue?—I cannot tell you.

3498. You do not know of any country which does not use bills?—I am not sufficiently conversant with the conditions of all the countries in Europe to be able to answer that question, but I can get the information if you want it.

3499. You objected to the Secretary of State speaking of having cash at short notice. Was your objection purely to the terminology?—It was merely to the terminology; that is all.

3500. Your objection was purely to the terminology, and you do not maintain that he ought not to have money in that form?—No, the objection was purely to the terminology.

3501. So long as the money market is solvent would you hold that money at short notice is, from the point of view of the Secretary of State, as good as cash?—I do not think you put the question quite correctly. You say as long as the money market is solvent; you mean as long as the individual members of the money market to whom the India Office lends money are solvent.

3502. Yes, that is so; as long as they are solvent, then the money at short notice is as good as cash, is it not?—No, certainly not. It is not cash, and therefore it is not as good as cash; but from the point of view of investment purposes or proper security it is just as good as the investment in the security itself.

3503. If money is lent for four weeks and the man to whom it is lent is solvent, then at the end of the four weeks it is as convenient to the Secretary of State as if he had held the same amount in sovereigns?—You have given the premise that the gentleman is solvent.

3504. Yes?—But that does not always prove to be the case.

3505. (*Chairman.*) Even then the Secretary of State has to wait for the four weeks?—Yes. I made that remark because—you can get it in the India Office, and it is not for me to give it to you—there have been, I know, within recent times, two failures in which the India Office did not get their money back.

3506. (*Mr. Keynes.*) I was wishing only to arrive at this distinction—from the point of view of the Bank of England and the market as a whole, they would obviously be in a more comfortable position if the Secretary of State had real cash rather than money at short notice, but it may make more difference from their point of view than it does from his point of view?—That is all dealt with by the amount, whether it is to be five millions more or less that you are going to hold in the Gold Standard Reserve. These loans at notice are minor factors in the situation.

3507. There are one or two points of detail arising out of some evidence we have had before us that I should like to ask you about. We were told that only such securities are accepted against loans as are bearer securities, or are inscribed at the Bank of England, and that the reason for that was that the authorities of the Bank of England had no means by which they could satisfy themselves that the transfer had been made unless it was a security of that class. Do you think it would be possible to have a simpler machinery so that stocks inscribed at other banks could be taken?—No. If you mean as far as the India Office is concerned, that is a question they must answer themselves, not I. You cannot have simpler machinery for the stocks inscribed at the Bank than we have got now.

3508. That is not the question I was asking. We are informed that the cashier to the Bank of England would not be satisfied that the transfer had been made into the name of the Secretary of State unless the stocks were inscribed at the Bank—that if they were inscribed at some other bank he could not satisfy himself of the fact?—No, he could not, because he would have no means or knowing that the transfer was in order. At the Bank of England he can go over to the chief accountant and satisfy himself that the transfer is in order, but at any other bank he cannot do it; he cannot walk into another bank and ask to see the books.

3509. (*Chairman.*) As a matter of security, would you consider it adequate if in such a case you received from the bank at which the stock was inscribed a certificate that it had been transferred to the Secretary of State?—That is a question of which I should require notice. It may be a very technical thing, but that I could not tell without looking into it. All those questions about transfers are very technical. I imagine that probably the Bank of England would accept the guarantee of that bank, but I do not know whether the bank would guarantee; however, that is another matter.

3510. (*Mr. Keynes.*) There are two other points of a technical character which I should like to raise, at any rate, at this stage. The first is with regard to the management of the Rupee Debt. We were told that you maintained a separate office for that purpose at the Bank of England, that the amount of the debt is now much less than it used to be—about seven millions—and that the charge for that management works out at much more than 1,000*l.* per million. What are the reasons which make it necessary to have a separate office for the Rupee Debt as opposed to the other debt?—That is a question on which I should be willing to get you the answer, but I cannot answer it off-hand.

3511. The Accountant-General told us that there was an undertaking by which the India Office keeps a minimum balance of half a million at the Bank of England, and that they in fact often have to keep a

good bit more there, and cannot lend up to the hilt, because the Bank of England will not allow them to strike their balance of the half million at four o'clock. They have made application to the Bank of England to allow them to do that, they say, but the Bank of England do not agree to it. Can you explain to us the reasons for that?—I ask for notice of that question. That is a technical matter which I could not answer without notice.

3512. (*Lord Kilbracken.*) You said, and I can quite confirm you, that the relations between the Secretary of State in Council and the Bank of England have been, apart from some recent incidents, altogether cordial and satisfactory?—Yes.

3513. Without going into any details, we may assume certain things have lately been done by the Secretary of State in Council which, from the point of view of the Bank of England, were not altogether advisable?—Only in reference to one matter.

3514. Do you consider these to have been in any degree the result of the financial methods and organisation of the India Office, or, as we are none of us infallible, were they simply a mistake on the part of those who happened to be then administering the system?—I think it was a mistake which, my own opinion is, ought not to have arisen.

3515. It may be assumed for the purposes of argument that it is a mistake?—It has got nothing to do with the general, what I may call broad financial questions of the India Office.

3516. It is a sort of mistake which is a result of the personal equation, and might occur in any conceivable system?—I think so. Of course, my strong objection to that matter was that it put a considerable strain upon the confidential relations between the bank and the India Office, as I informed the Secretary of State, because it is difficult to maintain the freedom of confidential relations where one party have for six months been interviewing the other and have not been frank, by keeping something up their sleeve because for reasons of their own they wished to do so. It was a breach in the confidential relationship; but it has got nothing to do with this inquiry, I think.

3517. I believe that no similar mistake affecting the relations between these parties had occurred for very many years?—I do not think it had ever occurred before.

3518. Have you any suggestions to make, either in consequence of this or apart from this, for the improvement of the India Office methods as seen from the point of view of the Bank of England?—No, I do not think so. I should think it is a kind of mistake that is not likely to occur again; I hope so.

3519. (*Sir Shapurji Broacha.*) The Gold Standard Reserve is established to maintain the par of exchange at 1*s.* 4*d.*; should not, therefore, the safety of this rate of 1*s.* 4*d.* be made as absolute as possible, so that at no time could it be disturbed?—Undoubtedly.

3520. And for that purpose gold is much safer than securities?—Granted.

3521. In 1907–8, although there was a partial famine, the Secretary of State had to use 15½ millions to maintain exchange. The American crisis was in 1907, and the realisation of securities was in 1908, when Consols were at 88 and money had gone to 3 per cent. Supposing they had had to realise those securities, not in 1908, but during the great American crisis of 1907, would it not have been much more difficult?—I think I told the Chairman that had the financial storm-centre been in London, those securities might not have been realisable at all, or, if at all, it would have been at a great sacrifice, and not only would there have been that great sacrifice, but it would have had a most prejudicial effect upon the financial world all round.

3522. It would have disturbed the great money market?—Yes.

3523. Suppose there were a great war in which England were involved, and there were panics in the markets of the world, as well as a famine in India, and the Secretary of State wanted money, if you had bankers' bills would not that be creating a little disturbance in the money market?—I do not quite know what you mean by bankers' bills.

3524. I am thinking of the Secretary of State having liquid money which is not in gold but in short-dated bills, or bankers' bills, or whatever they may be called. I think you mentioned in reply to the Chairman that the Secretary of State has 1,700,000*l.* in short-dated bankers' securities?—In the Gold Standard Reserve they have got 1,730,000*l.*

3525. That is not really gold, is it? It is bankers' securities?—No, that is actual gold.

3526. Even if you have money at call, then the calling-up of that money at such times would create a sort of fear in the money market, would it not?—Undoubtedly.

3527. But if you had gold to give out, that would help the market?—Yes. Taking difficult times, if India has to draw, and has to pay for those bills in gold, that undoubtedly would be an advantage to London if India has got to give out that gold against its drawings. But the Gold Standard Reserve and the question of the India Office balances are two totally distinct things.

3528. I am not talking of balances; I am only talking of the Gold Standard Reserve, which could not be used for any other purpose than the maintenance of exchange at the par of 1*s.* 4*d.* India has a greater power of absorbing gold than many other countries, owing to the excess of exports over imports. She has taken about 27 millions this year, and she took about 23 or 24 millions last year, and about 18 millions the year before, and I do not think any country has taken so much gold on balance during the last three years?—Yes, but is it not probable that Indian imports of commodities will increase?

3529. I am talking of the present situation?—I understand; but if you want to found an argument on it you have got to look at the probabilities.

3530. If India were allowed to accumulate gold in the Gold Standard Reserve to the extent of 25 millions or 35 millions in solid gold, would that not be very helpful to the Empire at a time when we had a war, a financial crisis, and a famine all coming together?—I quite agree it would be helpful to have more gold, and the original idea of the Gold Standard Reserve was that the whole of it should be in gold.

3531. Would it not also obviate the difficulty of going to a foreign bank to borrow three or four or five millions if the Secretary of State had those millions in solid gold which he could supply on the credit of India at the Bank of England?—It might or it might not. Do you mean to say that the Bank could borrow from the Indian Government?

3532. Yes?—I should not like to alter our system in this country.

3533. I am talking of the time when the standard gold reserve balances of India are in liquid gold, and perhaps the Bank of England may have to stop payment in gold. Would it not be very useful then that that gold should come in for use? Remember the Secretary of State is master of the Indian finances, and the Government of England is the master of the Secretary of State?—Yes, but I do not want the London money market or the Bank of England to be in any way influenced by the fact that it has got a lot of earmarked gold.

3534. It is earmarked in a way for the maintenance of exchange?—That is so. I do not oppose in any way the Gold Standard Reserve being invested in gold solely, but I quite understand that the Indian Government wish to make some profit out of it, and that you only want to accumulate gold sufficient for practical purposes. The Indian Government have at last realised that they ought to hold some gold, but they had not done so up to last year.

3535. A large amount of solid gold would save us, or put us into a position of absolute security for the maintenance of exchange in the worst of times, even when we had war, famine, and panics all coming together?—To the extent that it is such a sum as is more than India requires in any one year.

3536. You have been talking of a State bank, and I understood you to say that the Bank of France does

business efficiently, but it is a small place to which it is attached; so does the Bank of England do its duty efficiently, because it is a small place to which it is attached. Suppose the Bank of England or the Bank of France were given the duty of doing the work which the Bank of Germany does, the Bank of Italy does, the Bank of Russia does, and the Banks of Norway, Sweden, and Belgium do; would you say that the Bank of England solely or the Bank of France solely could do that vast business as efficiently as they now do it for England or France, as the case may be?—I am afraid I do not quite follow the question.

3537. I mean to say, if the Bank of England were the Bank of Europe, and had to do all the business of the Bank of France, the Bank of Italy, the Bank of Germany, and all the banks of other countries, do you think it could be so easily performed as it is now performed for this country alone?—That is a hypothetical question which it is practically impossible to answer.

3538. (*Chairman.*) I think what Sir Shapurji is suggesting is the difference between the area covered by India and the area covered by England. It is possible for one bank to do the work of the Bank of England in England because England is a country and not a continent, but it would not be possible for one bank to do the same work over a whole continent?—I do not think it is possible, so to speak, in the same way, but I should not like to state that it could not manage currency matters.

3539. (*Sir Shapurji Broacha.*) I am talking of the whole business, currency, financing, lending money to industry and commerce, all the vast business that the Bank of France does now, even to discounting 500-franc bills, or 125-franc bills, or even 5-franc bills. If she were given the management of the whole of Europe, would she be able to manage that work as efficiently as she manages the work now for France alone?—I should think not.

3540. I ask you because there is more similarity between the people of this country and the people of Italy and the people of Germany than there is between the banking classes in India; and India, I say, is as large as Europe?—Your inference is——?

3541. That it would be too large a business?—That a State bank or a central bank in India could not do it efficiently.

3542. That is so?—I carefully avoided giving a pronounced opinion, because I said I had no practical knowledge of the conditions in India.

3543. There are now in the Bank of England, as I see by to-day's news, 18 millions belonging to the Government, the municipalities, and other classes, all under the control of the Government; if, instead of the Bank of England holding 18 millions of Government balances, the Government were to put them into vaults at Whitehall, would not the public complain that they were being deprived of the use of the money?—Undoubtedly. The fundamental theory in this country is that money collected by taxation immediately goes back to the use of the country.

3544. If the Government of India had 25 crores or 18 millions or 17 millions sterling in the Treasury vaults, and did not lend that money out—that is, if all that money were swept in and not given out, would not that make the money market more difficult?—That is an Indian question, is it not?

3545. I am putting it in the general way of the world?—In the general way of the world, yes.

3546. Then is it not the fault of the Government that the money markets are dear at one time and cheap at other times? We were told yesterday that you cannot lend money to-day in India at 2 per cent. on Government paper, and yet sometimes it rises to 8 per cent. If that money were locked up within the walls of Government buildings, then in the case of the money market in India becoming dear, should the Government be blamed for it or not?—I have no opinion to give because I do not know what happens.

3547. I suppose you have no idea, if there were a State bank or a central bank established in India, where it should be placed?—No.

3548. You have told us that Indian money here, as it is not of a permanent character, is not very helpful. At present I think you said there are 11 millions of the Secretary of State's money on loan in London?—It may be more. I am only telling you what has been lent at the present moment by the Government broker.

3549. But that cannot be compared to Japanese money, because the Indian money is bound to be spent in this country sooner or later. Japan might call up her money, and Russia might call up her money, but the Indian money must be used here solely. It gradually goes out just like a banker's or a merchant's fund for goods, or something like that; so it is not the same kind of money that the Japanese money is, which would disturb the market when it is suddenly taken away in large bulk?—That may or may not be so. If the money is wanted in India I imagine it would be sent to India.

3550. No; it is not money which can be in any way dangerous to the London market, because it is London's money in one respect—at any rate, it cannot be as dangerous as Japanese money or Russian money?—I think that is true. The control of the money after all is in this country.

3551. I think Indian credit has gone down in this country in the last two years about 10 per cent., and the 3½ per cent. Sterling Rupee Loan I see is now about 86¼ or 86½?—Those are figures which can be very easily worked out.

3552. I think the present is a time when you cannot borrow much money for India if you want large amounts of a sudden, as at one time the Secretary of State could have done?—My own opinion is that the feeling about Indian loans, and so on, is that they are a little bit too much under Government control. If there were bigger facilities given for private enterprise in India, India would probably get money more readily. I am only giving you what I call the current opinion; I have no opinion to offer myself.

3553. If loans were limited to a fixed period I do not think the same difficulties as I have pointed out to you would obtain?—That is what I have said.

3554. (*Sir James Begbie.*) Speaking about the Gold Standard Reserve, I understood you to say that you think it should be held in London, because, if not held in London, gold would have to be remitted home to be drawn upon from India?—That is in the case in which the Gold Standard Reserve has got to be used for the maintenance of exchange.

3555. But there is no reason why a draft should be drawn in India on London to maintain exchange; it would be the same thing if gold is kept in India and issued in India, would it not?—I do not think it would have the same effect on exchange if the gold were held in India and issued in India.

3556. Not if it were issued in India for export?—For export, yes. As I have said, the reason for holding the gold here is that drafts presumably will be drawn on London, and therefore that export of which you speak simply means that the gold will have to come to London. I do not think, for instance, that India could draw and sell bills on Australia. I am looking at it from the practical point of view. When you sell bills in Calcutta I think they are drawn on London, and while London retains its position as the financial clearing house of the world, bills will be drawn naturally on London. Therefore, if, for the purposes of maintaining exchange, that gold has got to be used, the gold will have to go to the place on which the bills are drawn.

3557. If bills are drawn?—Where you maintain exchange it will be by drawing bills.

3558. The usual method is to use gold for international balances, is it not?—The usual method is, when exchange gets up to a point at which it is cheaper to ship gold, that gold will go. The question is one simply of freight and insurance, and when the exchange rises to a point at which there is a margin above the cost of freight and insurance, gold will go.

3559. Now I want to ask you one question with regard to the silver purchases of last year. We have

had it stated in evidence that the silver purchases last year, totalling over seven millions, were effected from the India Office balances, which may have been replenished from the proceeds of the Council bills sales, although the Secretary of State had the option of using the part of the Indian Reserves which is in sovereigns. The question I want to ask is this: Would it have made any difference to the London market if the purchases last year had been carried out by the use of sovereigns taken from the Indian Reserves rather than by money taken from the India Office balances?—The ultimate result would have been much the same. Do you mean to say that if they had paid out two millions of gold, for instance, and they had not sold the Council bills, the Indian banks would have taken that two millions and sent them to India; is that what you mean?

3560. No, I am talking about the way the silver was financed. It was financed, I understand, by payments from the India Office balances, whereas the actual gold reserves might have been used for the purpose?—Are you referring now to the Paper Currency Reserve?

3561. Yes; would it have made any difference to the London market if the actual gold had been used?—I cannot tell you. It depends upon the time of the year at which it was let out—whether the gold was wanted here or not. All shipments of gold here, I mean all increases of gold at the Bank of England—merely put the rate of discount down. It depends a good deal upon the time of the year that gold comes in as to the effect it has upon the money market.

3562. The purchases took place over about six months, I think, of last year, so that the payments would have been spread over, say, June to October, or November. Would not the London money market have been bettered by the receipt of actual gold rather than having to pay out the money from the balances of the India Office?—Are you dealing with five or six millions?

3563. It came to seven millions altogether, I believe?—Do you mean that they had five millions, say, of the Paper Currency Reserve, and the question is whether they should have paid out that gold instead of paying for it by Council drafts?

3564. Yes?—Five millions of gold taken into the London market would be exactly the same as having an extra five millions shipped from South Africa. That of course tends to keep the rate of money down. But what the practical result would have been, I do not think anybody could definitely say.

3565. (*Mr. Gillan.*) I should like to ask you one question about this matter of the gold mint. You said that if a gold mint were to be established in India you would prefer that sovereigns should be coined?—I gave you that as my own personal preference.

3566. I quite understand that preference, and I merely wish to ask if there is any very substantial drawback in your opinion in a smaller coin, say a 10-rupee Indian coin, being minted?—Personally I know of none. My reason for saying that I personally prefer the sovereign is that the sovereign is used practically throughout the British Empire, and so long as the Indian Empire remains a portion of the British Empire, I think it is a very desirable thing we should have one gold standard and not a considerable number.

3567. Why I asked you this particularly was that we have been told sometimes that a special Indian coin would, perhaps, go to a discount or would be of very little use in foreign exchanges, and so forth?—I do not think, as far as this country is concerned, it would make any difference what it was, because gold is not taken at its face value in international markets; it is simply taken by weight, and it does not make any difference to the weight of the gold whether it is a sovereign or whether it is a mohur.

3568. (*Chairman.*) It is sold by weight and fineness?—By weight and fineness solely.

3569. (*Mr. Gillan.*) That is why I asked you for your opinion?—People always think because a million sovereigns have been shipped that they are taken as a million sterling, but that is not the case at all. If you go to the bank for 100*l.* they will not count it out to you; they will simply weigh it out.

3570. With regard to the Gold Standard Reserve, you said, in answer to the Chairman, that the Government of India had recently recognised the necessity of keeping some part of its reserve in liquid gold, and you thought the figure which they had in view, about five millions, was insufficient?—It is insufficient compared with the possible requirements.

3571. With regard to that point, I want to put to you a part of the correspondence on this subject. It may appear repitition, but I put it to you because so much importance has been attached to what was said that I should like to have your opinion. The Government of India suggested to the Secretary of State that a substantial portion of the reserve should be held in gold?—What paper is this in?

3572. I am quoting this from the correspondence between the Secretary of State and the Government of India. It says (*see* Appendix V., despatch of Secretary of State, No. 82, dated 2nd July 1909, paragraph 8, &c., pp. 178–9):—"(8) Your second proposal is that a "substantial portion of the reserve shall be held in "gold. (9) The object of this proposal is to ensure "that the reserve shall be readily available whenever "required, even though the necessity should arise at a "time of general financial difficulty in London. There "can, of course, be no possible doubt as to the "importance of this object; but I am not satisfied "that the adoption of your proposal, in substitution "for the present method of dealing with the reserve, "is required for its attainment. As a matter of fact, "I have carefully and constantly kept the same object "in view whenever I have had to decide as to the "disposal of profits on coinage or of sums accruing to "the reserve by way of interest. The plan which I "have followed has been as follows:—(1) To hold a "considerable portion of the reserve in the form of "high-class securities with a near date of redemption, "because cash can always be obtained at the shortest "notice, by sale or loan, for such securities in the "event of their realisation before maturity becoming "necessary. (2) To hold in addition such an amount "of stocks yielding a higher rate of interest (namely, "Consols) as I can count on being able to sell in time "to meet all requirements that should be met from "the reserve." The Secretary of State adds, "As my "object has been precisely the same as that to which "your proposal is directed, the chief practical question "that can be raised (apart from those to be dealt with "in paragraph 10 below) is whether I have succeeded "in attaining it. I venture to think that the expe-"rience of 1908 shows that the answer to this question "is in the affirmative." Then, at the end of that paragraph, he says, "I recognise, of course, that in "times of prolonged depression of Indian trade, "especially if accompanied by other adverse condi-"tions, the realisation of securities to the amount "required to support exchange would require care; "but the operation ought not to be beyond the capacity "of the Secretary of State in Council and his advisers, "and I accept the responsibility for carrying it out on "occasion arising." With regard to that experience of 1908 on which the Secretary of State was then building, I understand your opinion is that matters were much easier for him because the storm-centre was in America and not in London?—Undoubtedly.

3573. Perhaps to that extent it would be advisable to modify any judgment that is drawn from the experience of 1908? You see he is building on that, for he says, "I venture to think that the experience of "1908 shows that the answer to this question is in "the affirmative"?—He means to say that they can be sold, does he?

3574. That he succeeded in doing it in 1908?—I give you the answer, which is a very definite one, that if you have India in the position where it is necessary for her to sell large blocks of sterling securities in London, the suggestion is a dangerous one. Therefore—I have not seen this letter before—I should not endorse this recommendation of Lord Morley's. You see he

says that he accepts the responsibility for carrying it out on occasion arising. The occasion, of course, may never arise. The occasion which I have got in view is the simultaneous existence of two conditions—one is a financial difficulty in London, and the other is famine or drought in India. Those two conditions may never arise simultaneously, but the occasion may arise, and when you are considering what it is desirable to formulate as what I may call the fundamentals of the financial policy of a great empire like India, you should not shut your eyes to a possibility.

3575. In fact, on occasion, the responsibility which this despatch accepted might prove to be too heavy?—It might be found that it was based upon——

3576. (*Chairman.*) A miscalculation?—Yes. I hope the Commission quite understand that any information we can give you from the Bank, like replies to those rather technical questions that Mr. Keynes put to me, I shall be most happy to have drawn up and sent to you, or to the member who wishes to have it.

(*Chairman.*) Thank you, we are very much obliged to you.

The witness withdrew.

Mr. Harry Marshall Ross called and examined.

3577. (*Sir Robert Chalmers.*) Do you come here to-day to represent the Bengal Chamber of Commerce?—Not exactly. I come here by the suggestion and invitation of the Bengal Chamber of Commerce, but they courteously permit me freedom where my views do not entirely coincide with theirs.

3578. Would you be so good as to state to the Commission what your experience has mainly been in connection with this question?—I was a Calcutta export merchant. I was engaged in the export trade for 23 years, comprising a period of 11 to 12 years previous and a similar period subsequent to the mint closure. I was chairman for five years of the Jute Association of Calcutta, and chairman of the Wheat Association for a shorter period. I was also honorary secretary of the Currency Association, which agitated for the closure of the mints, under the presidency of the present Lord Inchcape.

3579. In that latter capacity you have had a large experience of an intimate character in connection with our subject?—I have.

3580. You have been so good as to submit to the Commission a statement of the evidence that you propose to give,* and I will take you through that to some extent. Beginning with the cash balances, you do not raise any objection, I gather, to the plan by which the Secretary of State gets his money across from India?—I raise no objection to that.

3581. Have you anything to say as to the total of the cash balances, joining those kept in India and those kept in London; first, as to their magnitude, is the total too large, in your opinion?—During recent years, it distinctly appears to have been unnecessarily large.

3582. How did the combined balances rise to so large an amount?—Partly through the surpluses of revenue, and partly of course by means of loans.

3583. As to the surpluses of revenue, have you got any remarks to make in elucidation of your view that they are too large?—My view is that the budget estimates of recent years have been unnecessarily pessimistic, and I support that view by reference to the memorandum on the India Office balances, Cd. 6619. The seven years comprised in that publication, ending with 1911–2, show that in only three years was a surplus budgeted for, a deficit being budgeted for in four years, and that while the deficits were fairly substantial the surpluses were paltry—331,400*l.*, 46,400*l.*, and 34,000*l.* The results of those seven years show, on the other hand, a net surplus of between 10 millions and 11 millions sterling. Looked at from the point of view of the seven years, as set forth in those figures, it seems to me that there has been persistent underestimating, not necessarily intentional, but that has been the tendency.

3584. That is a stricture on the budget estimates to the extent to which the balances arose from the surplus revenues?—Yes, which necessitated, apparently, taxation which the event has proved to have been unnecessary.

3585. I will come back to that as a last point. The balance is made up not solely by surplus revenue brought across from India to this country, but also there have been capital sums raised by issues of loans, and that is a further department creating a large balance?—Yes, certainly.

3586. Given the money in India, do I take it your view is that the Secretary of State is right in selling Council bills freely, with a view to releasing rupees in India, and preventing accumulation in the hands of the Government of India?—Unquestionably.

3587. That tends, in your judgment, to prevent the detriment of the money market in India?—It restores to circulation the currency abstracted from it.

3588. Would you like to say anything further as to the retention of large balances for long periods, and have you any suggestion to make as to the use of any surplus in the reduction of debt?—I think that surpluses in the Indian budget should be treated as they are supposed to be treated in the English budget—as a sinking fund for the reduction of debt, primarily floating debt, and in case of absolute need by the purchase of stock, exactly as the English Government would purchase Consols.

3589. You are referring to the old sinking fund in this country and drawing your argument from that analogy?—Yes.

3590. Is there this difference: that debt is paid off in this country on balance, whereas in India the position is rather different, is it not, as India has a Government that is always borrowing?—I agree.

3591. So far as surplus revenue is brought across from India to London and is not used for the specific purpose of paying off debt, it is yet used, is it not, for the same purpose if it ensures the diminution of new debt?—Certainly. In the case of India, might I cite an example? I think that Sir James Westland applied his heavy surpluses after the mint closure, due to the holding up of Council bills, to two purposes—one to railway construction and the other, I think, to the avoidance for two years of rupee loans. That would be similar to paying off debt.

3592. You are aware that in this country the surpluses have been used to prevent new borrowing, and to that extent there would be an analogy?—Yes.

3593. If you were to use the surpluses exclusively on, perhaps, pedantic lines for the reduction of the existing debt, it would mean that you would have to issue new stock—pay off with one hand and raise new debt with the other hand?—That would be inadvisable provided the new stock were shortly to be raised, but if there was a probability of the stock not being required for two or three years, then there is a different aspect to the question.

3594. It would be a question of time?—Yes.

3595. Leaving out of account the question of time and assuming the money to be here, what use would you make of the money in London pending the time which we have assumed to be near at hand for meeting expenditure? Have you got any objection to the practice of lending money out in the money market?—No better use could be made of it.

3596. Coming to the collection of revenue, the old doctrine used to be that it was advisable to leave money in the pockets of the lieges to fructify; you know that doctrine, of course?—Yes.

3597. Is there any particular difference between the position of India and that of this country in this respect, that taxation is levied to a great extent at one particular season of the year, and so tends to enforce

* *See* Appendix XIX., page 543.

a greater pressure on money markets?—That was the case in my time.

3598. It is so in this country, is it not, too, when the income-tax is being collected?—It is; but owing to the action of the Bank of England, I believe the funds are released much more rapidly to the market than was apparent in India in my time.

3599. (*Chairman.*) In the case of England, we are always over-spent at the first part of the year, and therefore the moment we have collected the taxes they are paid out in redemption of the borrowing?—Which is in itself a reduction of the floating debt.

3600. In the case of India, does the time of the greatest collection of revenue come at the beginning of the financial year, or at the end?—The greatest pressure, owing to the abstraction of taxation from the current circulation, is in the early months of the calendar year, or rather the later months of the financial year.

3601. Is the Indian Government borrowing to pay its way in the early months of its financial year, and then paying off that debt in the later months when the revenue comes in, just as happens in England?—I do not know that the Indian Government borrows as the English Government does—at any rate not in India. The Secretary of State borrows in England.

3602. (*Sir Robert Chalmers.*) Your point is that the collection of revenue tends to create stringency?—It did, and I believe still does, according to what I have read.

3603. Have you got any suggestions to make by which you think it would be possible to render the money in the treasuries in India available in any form for the relief of the Indian money market, say, by means of loans to banks or otherwise?—Of course it is released now by the sales of Council bills and transfers, but necessarily not always with perhaps sufficient rapidity. It might be released by way of loan to the banks, Presidency or otherwise, possibly, on security in India.

3604. What sort of security?—Undoubtedly Government paper should be a security. What further security might be acceptable is not a question I am prepared to dogmatise upon.

3605. What sort of rate have you in your mind that you would charge on behalf of the Government of India to the banks or other bodies to whom you would lend? Suppose the bank rate at the beginning of December was 7 per cent., what would you do as regards the rate that you would charge?—I see that the Secretary of State in a despatch to the Government in 1899 spoke of the rate being not below the bank rate. It seems to me that if the Government is to insist upon the bank rate, the temptation to employ Government funds for trade purposes would be lessened to the banks if they have to pay the maximum rate.

3606. Do you propose a lower rate, then?—I would not like to say how much lower, but I should think, to effect the purpose we have in view at the moment, it would be necessary to make it a profitable undertaking to the borrowers.

3607. Would those borrowers in your judgment properly be the Presidency banks, or do you contemplate any other borrowers?—Provided the security is sound, I do not see why we should limit those loans necessarily to the Presidency banks only. The exchange banks, provided they desire such accommodation and would lodge an equal security, should be placed on an equal footing.

3608. You contemplate banks?—There is nothing in India, I think, to compare with our big financial houses, and therefore I should say banks in India.

3609. Does it strike you as a possible danger in such a system that the banks might come to count on this as money that they could always get at that time, and would discount the advantage in advance?—I am afraid the mercantile and banking mind would always count on anything that they saw a prospect of being sure to get; but I do not think there would be any danger connected with their counting upon such accommodation, always provided they were prepared to return the loans duly. In the past we know that was not the case; the Presidency banks have practically expressed inability to return loans in the past.

3610. You are aware of cases, are you; there was one in Lord Northbrook's time, I think?—I am aware of cases. They have been cited and published. Hence I believe the Government established reserve treasuries because of that.

3611. It would be very essential that the Government of India should be certain of getting back its money?—Undoubtedly.

3612. To the day, if it needed it?—Undoubtedly. In connection with that I would say that the capital and reserves at the banks nowadays are very much greater than they were in those days, and possibly the same difficulties would not be encountered again.

3613. Coming now to the sale of Council bills in order to provide for the home charges, the present practice of the India Office in selling its Council bills is familiar to you, I presume?—Yes.

3614. I think you have some alternative method to suggest; would you be so good as to state the methods and the objections you see to them?—I have none myself, but I am speaking of the alternatives which have been suggested in various quarters, and which I have ventured to consider in my précis of evidence (*see* Appendix XIX., page 544). One alternative which has been urged is that the Indian Government should pay its home charges through the medium of certain Indian banks. To that I would lodge the objection that jealousy would be aroused by the selection of those banks and by the allocation of their respective proportions of the business. Such selection and allocation would not improbably give rise to the suspicions and innuendoes which have attended the distribution in loans of the India Office balances. Again, I think if the remittances were made at the best rates obtainable, without regard to the amounts remitted through the respective banks, the alternative would merely be equivalent to transferring the auction from London to India.

3615. We have been told that the Secretary of State sells his Councils up to the total demands of the trade, subject always to the proviso that his sales should not prevent a sufficient amount of gold going to India. Do you think he is right in doing that, and do you think his practice is sound?—In selling to the full extent of the demands of trade?

3616. Yes?—I think that he is entirely justified in selling freely and to the full demand of trade so far as his balances in India permit him to do so. The objection I would raise to selling more than those balances permit is, first, that he is under the Gold Note Act, which gives, I believe, the right of ear-marking deposits in London and issuing rupees from the Paper Currency Department in India at specie point. And apart from that, I should object to him selling below the specie point. It is difficult, I admit, to say what the specie point always is, but I should object to his selling new rupees, new coinage in fact, below the equivalent of the specie point. In other words, the Secretary of State, or rather the Government of India, has notified that the new rupees would be issued against deposits of sovereigns from the mints, and it also issues notes of the Paper Currency Department at the same rate of 15 rupees to the £. When it has done the latter, for every 15 rupees it has the equivalent sovereign, we will take it; but when it issues new rupees it does not hold the equivalent sovereign—it has only got the third of a sovereign. That is where I draw the distinction between the free sale of Council bills at any price against balances down to the minimum of 1*s.* $3\frac{29}{32}$*d.*, and the sale of Council bills against new coinage.

3617. You were associated, you told us, as honorary secretary, with the Indian Currency Association, and you can speak for 20 years; would you say that the change from the silver standard to the present standard has been a boon?—Unquestionably.

3618. Do you hear of any desire, or do you express any desire to us, for a change in the contrary direction?—Towards reopening, do you mean?

3619. Yes?—That cry has subsided.

2620. You think it has subsided?—Quite.

3621. I think you quote Mr. Webb to the effect that more people in India were able to use gold coins now than they were 15 years ago?—Yes. If I may, I will read you the extracts I have made. In 1898 Mr. Webb published a memorandum on the Indian currency in which he expatiated on the poverty of India in the following words: "The poverty of the "great mass of the people renders a gold coin or gold "in any form entirely beyond their means. . . . "The native moneylenders would continue to receive "12 per cent. to 75 per cent. per annum for ordinary "temporary accommodation, and they would not, and "could not, use and demand that gold capital the "assumed advantages of which are one of the main "foundations of the present proposals to abandon "India's silver standard. . , . The gold standard, "with or without a gold currency, could not, for the "reasons already given, prove otherwise than injurious "to the commerce of India, to the revenues of the "Government, and to the well-being of the great mass "of the population." That was written in 1898 at the time of the Fowler Enquiry. I read that as evidence that in the opinion of the writer the country was then in a very poverty-stricken condition and quite unable to use a gold currency. But in 1912, 14 years later, Mr. Webb wrote: "Probably more individuals in "India are in a position to use gold coins than in "the United Kingdom." The only inference I can draw from that is that in the interval the prosperity of India has put its people in a position to use coins which he said were absolutely unsuited and too rich for them 14 years previously.

3622. You use his testimony in corroboration of your own opinion——?—Of my own opinion, yes.

3623. That the closing of the mints and the use of the gold standard has been a boon affecting the prosperity of India?—Undoubtedly.

3624. Coming now to the question of the use of gold coins, do you think that any special efforts should be made by the Government of India to encourage their use?—No, I deprecate such special efforts.

3625. What would be your view?—I think that the question of the use of a gold currency will be solved ultimately by the people of India, quite independently of any efforts that we can make either one way or the other; and I should prefer to leave it at that. I should certainly deprecate any arbitrary measures for preventing the flow of gold to India. On the other hand, I do not think it comes within the province of the Government to depute its officers, as has been done—or, rather, I will not say "depute," but illustrations have been given of Government officers having used their influence to circulate gold coins, and I do not think that is quite what should come within the province of the Government.

3626. You would leave it to the desires of the people?—Certainly.

3627. And to the movements of trade?—Certainly.

3628. A certain number of people hold that the use of gold coins is a very extravagant form of currency, and that the use of tokens, or of paper currency, is a more economical and scientific mode of currency; would that be your feeling on that subject?—Distinctly so. I think the cheaper the form of internal currency the better. So much is saved, and the gold could be conserved for the purpose of securing the external exchange value of the internal currency.

3629. You would not bring any pressure, therefore, to bear on the people to use gold, and you would follow their desires, but you would be rather more pleased to see non-gold used as the actual currency from hand to hand?—I think, really, if I may speak broadly, that the nation which exchanges its valuable products for a lot of metal which it can dispense with is simply wasting those products.

3630. I will take next, if you please, the question of the Gold Standard Reserve. I should gather from your previous remarks that you would regard the maintenance of an adequate Gold Standard Reserve as being the most vital thing to India?—Under the present currency system, yes.

3631. Up till now that Gold Standard Reserve has been accumulated in the way that you are familiar with, and has been subject to no statutory sanction in any way. Has the time arrived, in your opinion, when any regulations could be drawn up for the government of the Gold Standard Reserve?—With regard to its size, or its regulation only?

3632. Its regulation?—I think it distinctly advisable that something of that nature should be recommended by this Commission. Might I just say why I think so?

3633. If you please?—In the budget statement of 1908 Mr. E. N. Baker, when defending his refusal to issue gold freely in the crisis of the previous year, made use of some remarkable words concerning the Gold Standard Reserve. He said, "The time and "method of the employment of the gold standard "reserve must be at the discretion of the Secretary of "State by whom the reserve is controlled." I venture to submit that this is a most dangerous dictum. The reserve should be held under regulations which would bring it into use automatically, and the public should know clearly what the regulations are. Its transfer to the care of a bank or to a special department created by legislative act, with strictly defined powers, would be greatly preferable to leaving its use dependent upon the will or whim of the Secretary of State for the time being or of his financial advisers.

3634. Have you got any general indications that you could suggest to the Commission with regard to the content of the regulations which you have in mind? What sort of regulations have you in mind?—I have not presumed to lay down regulations, which I thought should be preferably left to this Commission.

3635. I will give you an instance. Would you take, as one of your suggested regulations, that exchange should be sold freely at 1*s.* $3\frac{29}{32}$*d.*?—I would say more than that. I think that the public which has invested gold in the purchase of rupees is entitled to have that gold returned at the gold export point, which is 1*s.* $3\frac{29}{32}$*d.*

3636. That would be one of the regulations?—Yes.

3637. Have you any others in your mind that you could mention?—Another would be that, instead of selling the sterling drafts on one day per week, as I think, if I recollect rightly, was done in previous cases, and advertising a certain fixed sum, as is done with Council bills at this end, I venture to think that anyone should be able to purchase a sterling draft on any day of the week for export purposes, so that he may transfer his capital or his money for longer or shorter periods, or permanently if he wishes it, at that minimum rate. I think that with a properly constituted reserve in London of sufficient strength, that might be done with advantage.

3638. That would be the primary regulation, then, that you have in mind?—Yes.

3639. Free sale at a fixed minimum figure?—Yes.

3640. And the use of the Gold Standard Reserve to be restricted exclusively to the purpose of maintaining exchange?—Certainly—for remittance purposes, in my opinion.

3641. Have you any remarks to make on that point, on the subject of the six crores in silver?—At the time that those six crores of silver were substituted for four millions sterling in gold, I did make comments publicly at a bank meeting in London on the inadvisability of that. It was reducing, and, as we know from subsequent events, reducing at a very critical time, the Gold Standard Reserve. Under the new regulations which have lately been promulgated by the Government, it has become not a silver branch but an Indian branch of the Gold Standard Reserve, and I can quite see its usefulness for relieving the seasonal demand for silver which we know occurs. In other words, my objection to a certain portion of the gold reserve being kept in India in silver is lessened in consequence of the new regulations.

3642. You can see its utility to the Government of India, but do you retain objection to those crores

being part of the Gold Standard Reserve?—No, they are so no longer, really; they are an Indian branch of the Gold Standard Reserve, and are practically used for purely Indian purposes.

3643. (*Chairman.*) You mean that, in effect, they have become part of the Currency Reserve?—Practically, because they are interchangeable with it. They should not, in any case, be counted in the amount which may ultimately be suggested by this Commission as the actual Gold Standard Reserve held in London.

3644. (*Sir Robert Chalmers.*) It is gold passed into silver, and no longer gold in reserve?—Yes.

3645. Passing now to the composition of the reserve, that, at the present moment, as you know, is partly in securities and partly in metallic gold?—Yes.

3646. You attach primary importance to metallic gold, I understand?—I would not like to say primary importance, but I think that a certain proportion should be held in metallic gold.

3647. How much do you think should be held, and how would you arrive at your figure?—As to size or proportion in gold, or both?

3648. Take both?—As to the size of the reserve, if we may judge by the extent of the drain upon it in 1907–8, the reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve, which practically doubles the Gold Reserve. I attach more importance to the resolution and confidence with which the Currency Scheme is backed than to the mere size of the reserve. A comparatively small reserve, backed by a resolute policy, would give the public more confidence—I attach great importance to confidence in this scheme—and do more to prevent or allay panic than a larger reserve with a continuance of the irresolution and vacillation which have often been apparent in the past. I do not think that the reserve should be unlimited. Its size should be fixed on some reasonable basis, not merely arbitrarily. Its fixture arbitrarily is merely guesswork. It might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907–8, say, from all sources, about 17,000,000*l.*, or a little more, I think it was (the actual export or transfer of gold out of India was only about 13,000,000*l.*, that is to say, 8½ millions, I think, sterling drafts on the Gold Standard Reserve, and a reduction of about 5 millions or 5½ millions in the amount of gold held in London against the Paper Currency Reserve, that is the way I estimated that), plus the Council bill shortage for the year, which, I think, was about 3 millions or 4 millions, speaking from memory. To this, a reasonable margin for apprehension should be added; for that, I should say, perhaps, 50 per cent. The public will watch the gradual falling of the reserve, and we should have something to give them ample security in that case. If we start on a basis of analogy and comparison, we may liken the liabilities of the Government under the scheme to those of a banker. It will be necessary to estimate those liabilities. The estimate of the rupees in circulation at the time of the Fowler inquiry was 120 crores. The Committee did not vouch for these figures, and I think that a serious attempt should be made to estimate the circulation, even roughly, now. I use the word "serious," because I have often heard comments on the unreliability of the statistics collected throughout India, very often from Indian sources, as to the composition of the circulation. An estimate of 200 crores would give about Rs. 7 per head of population, roughly. Now the English joint stock banks keep about 23 per cent. of their liabilities in cash, at the Bank of England, at call, and at short notice—that is, including their capital and reserves in addition to their other liabilities, it works out to about 23 per cent. A like proportion gives 46 crores, or, say, about 30,000,000*l.* as the size of the reserve against rupee liabilities. Of this 23 per cent., the English banks hold about half in actual cash or at the Bank of England, which is the same thing. This might serve as the basis for estimating what proportion of the reserve should be kept in actual gold. It must not be overlooked that the English banks' figures are "window-dressing" figures, and that the working percentages are probably smaller. That is simply a suggestion which I venture, with all respect, to lay before the Commission. As to a mere arbitrary guessing at what we should have, 30, 40, 50, 60, or 70 millions, I can only say, so many minds so many guesses.

3649. Do you think the experience of 1907–8 to which you refer is necessarily a complete test for the future?—I think it was a very good one, because it is a curious combination; there was a world's crisis and a shortage of crops.

3650. Was it a world's crisis exactly? The storm centre, to use a phrase we have heard to-day, was not in London?—No, it was in America, but the strain was felt in London, as we know.

3651. The storm centre was not in London, and though you had a famine in India, you did not have a great commercial crisis at this centre, London?—That is so.

3652. To that extent, therefore, the past is not a full measure of what might be in the future?—Assuming a great financial crisis, we have not had experience of that in London.

3653. Would you be prepared to indicate, under present circumstances, the sort of amount at which you would keep the metallic gold?—If my basis were accepted of 30 millions, then I would go on what the English banks hold—one half—which would be 15 millions.

3654. You would go as far as 15 millions?—I would go to one-half because of my analogy. Similarly, if we go on the basis of experience, I do not think that anything less than 12 millions or 15 millions would be looked on as fulfilling the purposes which I think the Gold Standard Reserve might serve.

3655. Your argument is based, to a great extent, on your view that the amount of rupees in circulation is the primary factor?—Yes, a primary factor.

3656. And not the balance of trade?—"The balance of trade" with regard to India has always been a puzzling expression; "the balance of trade" is a puzzling expression anywhere, but particularly with regard to India. With other countries we will presume that they are exporting and importing, we will say, commodities, and when the trade balance is favourable they import the precious metals as currency; but in India it seems to be quite a different thing, and they import vast quantities of the precious metals, not as currency but as mere articles of merchandise. It is, therefore very difficult often to say what is the true balance of trade in India, whereas it is simpler in the case of other countries.

3657. You are providing a Gold Standard Reserve with reference to the total number of rupees in India?—Yes.

3658. And not those rupees only which actually impinge on exchange?—The actual rupees which will impinge on exchange at any given time will be those seeking remittance from the country.

3659. You are not dealing with those only, but you are taking all the rupees?—Because it is impossible to estimate what those rupees are. I estimate in the case of the trade balance proving unfavourable and a desire for remittance arising, that if you had a Gold Standard Reserve which would absorb that 23 per cent. of the total rupees in circulation, you would be going, backed if necessary by a loan, as far as you could in reason be expected ever to go.

3660. Some people might think further?—They might.

3661. Is your argument based on the total amount of circulation, or the total amount of rupees coined?—On the total amount of rupees coined. I would not necessarily say coined, because there may be many rupees which are held in hoards, and are not affecting circulation at all. When speaking of circulation I mean the actual amount of money or currency which is being employed for the purposes of trade at the time.

3662. You take the wider definition for the time for your purpose?—Yes.

3663. Leaving that, and coming now to the Paper Currency Reserve, you are aware that there is a certain amount of paper currency reserve which is held in gold?—Yes.

3664. And that is held in London?—Yes.

3665. Would you be so good as to state to the Commission your views on that; do you think that right?—I think that if you have a properly constituted Gold Standard Reserve in London there will no longer be any need to keep any of your metallic currency of the Paper Currency Reserve in this country also. You are having two reserves for one and the same purpose at present.

3666. Have you got any remedy to suggest?—The transfer of the metallic reserve of the Paper Currency Department to India.

3667. The gold of it?—Not at present, because the Government of India have been hampered by the accumulation in its Paper Currency Reserve of gold which will not pass into circulation; but that is what I am ultimately aiming at.

3668. Do you contemplate, in those ultimate aims of yours, any transfer of the six crores of silver to the Paper Currency Reserve?—That I believe is contemplated by the Government as a seasonal thing in its new regulations.

3669. It has been suggested to this Commission that it might be a good thing to make loans from the Paper Currency Reserve on proper security to the Presidency banks with a view to making the currency elastic, and so forth; would you favour that?—I should favour it to this extent: In the first place, we ought to have regulations as to what the fiduciary proportion of the Paper Currency Reserve should be. In my days in India we were frequently, as a Finance Committee of the Chamber of Commerce, called upon to consider the question of increasing that fiduciary issue, and it was always done on the basis of one-third of the permanent circulation being assumed to be safely placed in investments. At present there is only something like one-fifth, and therefore there seems a possibility of a very large extension of the fiduciary issue. Some years ago I believe the Government of India placed it on record in a letter* that they looked forward to the time when one-half of their paper currency would be a fiduciary issue. Without going so far as that, and taking the one-third, it seems to me that that 9 or 10 crores which could now be placed upon a fiduciary basis might be instead used for easing the money market in the shape of the loans you refer to.

3670. Do you contemplate as much as nine or ten crores being possibly put out in the money market of India?—I do not think it would be, but I think it might be made available.

3671. It would be probably three times too big would it not?—I am no longer in India, and I am not prepared to give an opinion on that point at present.

3672. Am I right in thinking that you would be prepared to make loans from the Paper Currency Reserve to, say, the Presidency banks, within the fiduciary total?—Certainly, I would.

3673. But there again, as you told me in answer to a previous question, at the beginning of your evidence, you would require first-rate security?—Yes.

3674. And that would be not in addition to any maximum of the fiduciary issue, but in lieu of part?—In lieu of part, after it had been decided what the proportion of that fiduciary issue might safely be fixed at. As I have instanced to you, originally we used to base our calculation on one-third, but the Government of India has ventured as far as 50 per cent.

3675. The conditions of India might change; the people may come to use cheques, for instance, and so forth, more freely, and the issue of notes might become relatively less significant than it has more recently been?—The use of cheques in India might be advantageously extended even in the Presidency towns. It is very poor at present. I see in a Calcutta paper received by this mail a complaint from a correspondent, who says that many large firms in Calcutta still pay in currency instead of in cheques, and he is asking the editor of the paper to publish that with a view to inducing the more frequent use of cheques.

3676. To the extent to which any movement on those lines proceeded, to that extent there would be a diminution of the currency notes?—Or of the rupee circulation.

3677. Or of both?—Or of both, unless it proceeded with such expansion of business as to absorb that too.

3678. The point I wanted to get your opinion on was whether a certain measure of caution might not prudently be exercised as to limiting the fiduciary portion of the Paper Currency Reserve, seeing that it is possible that circumstances might change?—You could realise your securities in such a case, and would do so, no doubt.

3679. That is your assumption?—Well!

3680. It is an assumption, you will admit, because the circumstances of the money market might make it very difficult to realise your securities?—It depends what those securities are.

3681. And the size of the market on which you would unload those securities at the time of your need?—Undoubtedly.

3682. Which might be their need too?—It might be their need as well. I would point out that part of the fiduciary issue is at present secured in British securities in this country—gold securities. I am not venturing to submit that all the extension of the fiduciary issue should always be in rupee paper.

3683. May I take you now to the question, which is a very large question, of the State Bank. What would you say on that? Would you favour the Commission with your views about the advantages and the disadvantages of a State bank?—I have ventured to formulate my views on the basis of the memorandum which was submitted to the Fowler Committee by Mr. Alfred de Rothschild, and I have read and heard many recommendations of such a bank. I am bound to admit that if it fulfilled the intentions of its would-be promoters, and so forth, it would be a most valuable addition to the banking resources of India, subject, as I venture to point out, to restrictions which would prevent unfair competition with the exchange banks. With regard to that, I may say that Mr. Alfred de Rothschild in his original paper submitted that the bank should not conduct any exchange operations, but should confine itself, like the existing Presidency banks, exclusively to internal operations. Of course, that would meet my first objection. Next, to protect from what would be unfair competition the solvent and well-managed Indian banks. I think the Government can regard with complacency, even if it does not encourage, the extension of Indian banking pure and simple, but that it should not, by the institution of a State bank, cut away the ground from under the feet of those solvent institutions. On the other hand, there are a great number of banks being started now in India the resources of which are ridiculously small, and they constitute a danger to the public. Possibly the establishment of a State bank, working in numerous branches on the lines of the Bank of France, might to a certain extent supply a need and be a safe depository for greater savings.

3684. Do you think there is a popular demand for a State bank in India?—I do not think so. I am merely taking this somewhat highly-coloured representation of what a State bank will or would do, and I say that such an institution, if it fulfilled these purposes, would be valuable.

3685. You attach particular importance, I think, to a bank of that nature, or otherwise, with branches which would co-operate with the ryot in giving him advances at less ruinous rates than he has to pay at present; but you look forward to something else, and I think you attach importance to something in the nature of co-operative banking?—I do not think I have mentioned that at all in my précis. What I have said is that a State bank would, by opening branches all over the country, provide that absolute security for the native depositor and trader, which has not in the past been peculiarly conspicuous as a feature of Indian banking. I am not thoroughly acquainted with the co-operative credit movement in India, but from what I have read of it, it seems to me that it is meeting the wants of the ryot better possibly than could be done in any

* *See* in this connection paragraph 5 of Enclosure 1 to letter from Government of India No. 295 dated 18th August 1904, Appendix VIII., page 264.

other way; but I have not connected that in any way with the State bank.

3686. You do not connect it in that way?—No.

3687. It is an object you have in view, but you have not connected it with the other question?—I have not connected it.

3688. Do you suppose that if there were a big State bank, able to extend its operations by creating branches in places where there are no banks at the present time, it would take long before those new branches would pay?—Predictions in India are more dangerous than in any other country. The only evidence I have which is of any use is possibly that of the experience of the Bank of France, if I might just give that. In 1878—I have taken this from a paper read before the Institute of Bankers some years ago—there were 41 branches of the Bank of France carried on at a loss of 32,000*l.*, while 45 branches were carried on at a profit of 99,000*l.* Twenty years later, in 1898, there were only two branches working at a loss, the amount of which came to only 3,000*l.* a year, while the productive branches yielded a profit of 413,000*l.* That is the only evidence I can submit.

3689. Coming now to the general question of a State bank, it would have to be a very big institution, would it not?—Yes.

3690. What sort of capital have you in mind that it would require, treating it as a State bank for the whole of India?—I have not ventured to think of any capital myself, and the capital which has been suggested by others seems to me one which, on present lines, would never earn its dividend. When you come to look at the proposed bank as a paying proposition, I find many grave difficulties in the way. The project, as originally submitted to the Fowler Committee, presumed a capital of 14 millions, and to pay a 5 per cent. dividend would require a net earning of 700,000*l.* The three Presidency banks have together in capital and reserve about 7½ crores, or five millions sterling, and they pay dividends totalling annually about 340,000*l.* It is difficult to see how this could be doubled short of a heavy Government subsidy in the shape of the profits of the Paper Currency Department. Would a heavy subsidy be just? Assuming that the capital of the State bank be limited to 10 million pounds—that suggestion has been put before me from several quarters—requiring only 500,000*l.* net profit to pay 5 per cent., the absorption of the existing banks would, likewise, absorb nearly the whole of this capital. Shareholders in the existing banks would presumably have the option of exchanging their holdings into shares of the State bank or of being bought out. The market value of those holdings is now about 8½ millions sterling. With the usual "inducement" to amicable arrangement, probably nine million pounds would be required to bring about the amalgamation. The actual addition to working capital would be a solitary million sterling. I therefore wind up by saying that, theoretically, the suggestion of a State bank is an inviting one: practically, it is not yet apparent that it would be a paying proposition.

3691. That is your view?—That is my view.

3692. Would you say something further as to the utility, were such a bank established, of its looking after the sale of Council bills?—I have not ventured to suggest any alteration in the sale of Council bills.

3693. Do you conceive that any particular benefit would ensue?—I do not. I think people would be terribly excited if Council bills were handed over. The jealousy of the other banks would be rampant.

3694. Take another aspect of the probable activities of a State bank. It is quite conceivable that it might be entrusted with the management of the paper currency; what would be your view as to the utility of that?—I think a paper currency is probably better managed by a bank than by a Government,

3695. In time or at once? Could the bank take it over and do the work of the Currency Department?—The bank would take it over in that case.

3696. Could it do it quite as well at once, do you think?—That would depend largely on the staff, I should think.

3697. The paper currency is a profitable concern to the Government?—Yes.

3698. And it would be, therefore, a profitable business to the State bank?—If it is going to be handed over it would be taking a large profit which the taxpayer would have to make up. That is my objection to the transfer.

3699. Is there any further observation you would like to make?—In regard to the use of the Gold Standard Reserve I am suggesting something which probably will be regarded as heretical, but I will be courageous enough to make it. I say that with a properly-constituted Gold Standard Reserve, held in this country, there should be no need for holding any portion of the metallic reserve of the Paper Currency Department here also. The proper place for this reserve would appear to be India, since it exists to insure the convertibility of the notes, not the maintenance of the exchange value of the rupee. As regards the Gold Standard Reserve, hitherto it has been the practice, when exchange threatened to fall below specie point, to offer fixed amounts of sterling drafts on London upon a given day each week. With a properly constituted reserve in London, it should be possible to sell telegraphic transfers upon any day of the week up to a reasonable limit. Assume a grave financial crisis in London, with the exchange banks and merchants anxious to strengthen the resources of their head offices in England. Actual gold could be released in London, to the advantage of all concerned. I am now assuming that we have the reserve I suggested of 30 millions, of which half would be in liquid gold. It is certain that gold released in a London crisis would be to the advantage of London, and it certainly would be to the advantage of India. It would give her a profitable use for her money at a time when she might be willing to lend, and she could not lend it to a better market. It would be of service to the exchange banks and to the merchants anxious to strengthen their London offices if they could have these remittances by means which would help to terminate the crisis. The reason I have for suggesting it is that I was in India through the Baring crisis, and at that time—I take it on the authority of the Bank of Bengal—the aggregate balances of the Presidency banks were about 13 crores of rupees, and they were not able to lend much at 3 per cent. According to a statement of Mr. Lindsay, published in the "Economist" on 25th July 1891, pp. 960–1, they would have been glad to lend the three millions, or whatever was required, to London at 2 per cent. That is a statement made in print by Mr. Lindsay, who was the Deputy-Treasurer of the Bank of Bengal at the time. Had that been possible, there would have been no need for us to go cap in hand to France for three millions of gold. At that time—I was employed in the firm at the time, and I know the fact—a large mercantile firm were desirous of remitting some few thousands of pounds to strengthen their London house—they thought it would be better to strengthen their reserves at such a critical time, though they were in no danger. We were unable to buy telegraphic transfers from any of the English banks, and only through the Comptoir National could we purchase them. The English banks declined to weaken their head offices at that time. Such was the report brought back to us by the brokers.

3700. (*Lord Faber.*) Did I understand you to say that you would let out the Government balances in India at something below bank rate?—I said that unless you made it profitable to the banks they would not borrow.

3701. Would it not be better, do you think, to lend out such money as that at market rates? Have you a market rate in India as we have in England, apart from the bank rate?—The banks advance there at 1 per cent. and 2 per cent. frequently over the bank rate.

3702. And that is the market rate?—Yes. They charge 1 per cent. or 2 per cent. to the mercantile houses, the percentage depending largely on the credit of the mercantile houses. That is for overdrafts in course of shipment and so forth in the export trade.

For long periods I believe special terms, and quite different terms, are made.

3703. You might, I suppose, allow balances to be taken up there either at market rate or by tender?—That would be for tender by the banks, I understand?

3704. Yes?—I dare say.

3705. What I have got in my mind is that I think you might very easily make a grievance if you lent to any particular banks at something below what I should call the market rate?—Quite possibly.

3706. It would give those banks an advantage over others?—I am quite with you.

3707. I think if it could be done by tender it might perhaps do away with those grievances?—It would, necessarily.

3708. (*Mr. Gillan.*) You said, in answer to Sir Robert Chalmers, that you think the balances of the Government of India recently have been unnecessarily large?—Yes.

3709. And the cause, you thought, was that the budgets had been too pessimistic?—Yes.

3710. I suppose you recognise that under present conditions there are great difficulties in the way of budgeting in India?—There always are.

3711. The rule which the Government of India have to follow, *faute de mieux*, is to budget for the normal?—Yes.

3712. An estimate based on the normal is an estimate that is bound to be exceeded if you get a good year?—I would venture to interpolate, if I may, that while the Government should budget for the normal, reading the various speeches of Sir Guy Fleetwood Wilson, I think he has always budgeted for below the normal. All his speeches that I have read have been pessimistic ones.

3713. That is to say, they have not fixed the normal at a proper level?—As the results prove, apparently.

3714. Suppose they had budgeted for a fuller normal, and the actuals in consequence had been closer to the budget estimates, or, rather, we will say, that you foresaw that you were going to have a bigger surplus than was put down in the budget, in that event what would you have done?—In the first place I would not have imposed taxation, but the Indian Government has done so.

3715. That was in 1910. If you had foreseen a bigger surplus would you have taken off taxation?—If I had foreseen a bigger surplus for one year, no. I have now got in my mind the opium surplus. If I had foreseen a surplus of one year, no; if I had foreseen what appeared to be a permanent surplus, yes.

3716. Suppose the surplus you foresaw was going to last, as far as you could judge, for only two or three years?—He would be a very wise Finance Minister who could look more than two or three years ahead.

3717. I know; but supposing your forecast was for two or three years only?—I should have accepted it.

3718. You mean you would have taken off taxation?—Yes.

3719. Would that have been because you consider that taxation at present is, as a matter of fact, excessive?—I would not like to say that taxation is excessive, but I think there are a number of cases where it is inadvisable. In one particular alone I think it is very inadvisable. Might I refer to the income-tax? There is an income-tax which, applied to the European firms, is a just tax. I never complained of it, and I pay it still in both countries. As applied to the native it is a mistake. The great aim of the Government should be to get the native of India to invest his money in joint stock enterprises and in securities; but no sooner has he done so than the Government sweeps down upon him for a tax, and if there is one thing hated by the Indian more than another it is a Government tax. It is not an encouragement to the bringing out of hoards to tax them at once when they appear and you can lay hold of them. That is my point.

3720. Would you make use of some of those large surpluses that you foresaw to remedy defects in the income-tax?—I think it is an inadvisable tax, politically considered, as applied to the Indian.

3721. With regard to Council bills, I think you said that the effect of Council bills was to restore to the circulation in India the currency abstracted from it?—The currency collected from the circulation is restored to the circulation by sales in the form of Council bills.

3722. That is not affected particularly or specially by Council bills, is it? If the Secretary of State did not draw Council bills you would have the funds going into India in the shape of sovereigns and there being exchanged for rupees, restoring in that way the circulation which had been withdrawn?—If rupees are wanted you can only get them either through the Secretary of State or through the importation of gold.

3723. If you stopped the sale of Council bills you would not necessarily stop the restoration of this currency which you have in mind?—If you stop the sale of Council bills the Government will accumulate the taxation in its treasuries. It could not remit the proceeds of that taxation to pay its debt in England because those proceeds are in silver. It will have to exchange them in some way or other, and with someone or other, for gold with which to pay its debts in England.

3724. But the rupees which were wanted for circulation would equally be withdawn from the currency by the presentation of sovereigns?—They could be withdrawn from the Treasury by the presentation of the sovereigns, and those sovereigns would have to be remitted at the cost of the Government to England to pay debts.

3725. That is a further consequence, no doubt. With regard to the loans from Government balances in India, we have had some witnesses who said they saw no objection to such loans being made, but at the same time they were not very enthusiastic on the subject, and they did not consider that there was any very great necessity for them. What is your view on that?—The necessity would be shown by the tenders which Lord Faber has referred to.

3726. Do you think that ordinarily in the course of the busy season in India it would be a good thing for the Indian money market to be helped by loans from Government?—Application has been made in the past by the Presidency banks for loans at those seasons, and they have been refused.

3727. Do you think in a general way it is very important for the Government to help the money market as far as it can out of its balances?—If the Government by its action has abstracted from the circulation currency which is needed, it is the Government's business to restore it to the circulation as soon as possible.

3728. On the matter of the form of the currency for India, I think you said that on the whole you would prefer an extension of the note circulation to an extension of the gold circulation?—Yes, I think that is most desirable.

3729. There is one point I wish to put in that connection. At present there is the right to cash the notes at only a small number of places in India, that is to say, at the currency offices; if the Government were inclined to increase the number of those centres this is the kind of difficulty that presents itself to my mind, and I would like you to consider it. Suppose you take a place like Ahmedabad, in the Bombay Presidency, where the big crop is cotton. The demand for cash at Ahmedabad will come in February or March or April. It would then subside, and there would be a back current of rupees in what, for Ahmedabad, would be the slack season, say from May, or after that. About July you get a great demand for rupees in quite a different part of the country, because then the jute comes on. Therefore, Government will be getting back its rupees, we will say, at Ahmedabad, and simultaneously it will have to plant a very large number of crores of rupees at the other end of the country, in Eastern Bengal?—Do you mean to say in exchange for notes?

3730. Yes?—That is one of the difficulties which the Government faced when it extended the conditions of the universal circulation of notes; but then the profits on the Paper Currency Department are large,

and, if it is a mere question of transporting currency, the Government is well able to do it out of their profits.

3731. Do you think it the work of the Government to undertake this responsibility to find rupees all over the country in order to extend its note circulation?—I think that if the note circulation were handed over to a bank, the bank would make profits out of that circulation, and would take risks which possibly the Government at present is somewhat loath to do.

3732. Then from your point of view a bank could do this particular kind of business better than the Government could?—I do not say it could, because latterly the Government have extended it enormously, but I say it would be its policy to do so, because it would be profitable.

3733. When Sir Robert Chalmers was asking you about the Gold Standard Reserve, and you suggested that certain regulations should be drawn up for it, I think you said something to this effect—that the owners of rupees are entitled to get them changed into gold?—A member of the public who has paid you a sovereign for 15 rupees to place in India is entitled to have his money back if he wishes it.

3734. Might I ask you to tell me once more what was the regulation that you proposed on that point?—That the Government should always be prepared to issue sterling drafts, or telegraphic transfers, at this rate of 1*s*, $3\frac{29}{32}d.$, or 1*s*. $3\frac{1}{2}d.$, as the case may be, on demand.

3735. I understand this is to be a regulation of some sort?—Yes, and it is practically so now, because the Government does it, but it is not stereotyped in a statutory form.

3736. That is what I want to get at. What would be the difference? Would it impose on the Government a legal liability?—If it were put into statutory form it would. The evasion of such a liability means disaster to India; it means the utter collapse of the currency system,

3737. Do you not think that is going rather far? Is this absolute liability to find gold for silver on any or all occasions a feature of the currency of any country except England?—I do not say that India should do that; I say it should only do it for remitters, exactly as Holland does; I believe Holland does that to-day—she finds gold for export but not for internal use.

3738. That is a point I was not quite clear about. You do not mean that anybody who takes 15 rupees to a treasury or to a mint in India should get a sovereign for it?—No. The sovereign has been brought into the country and changed into rupees. When the man wants his sovereign back again it is to go out of the country. That is the way I look upon it.

3739. Then this regulation would be limited to remittances?—Undoubtedly. Might I quote you in two lines the point as dealt with by the Fowler Committee? The Fowler Committee said in effect that the Government should not be compelled by law to furnish gold for internal purposes. That you will find in paragraph 59 of the Fowler Committee's Report.

3740. I will now go on to the amount of the Gold Standard Reserve, with regard to which you say that you would like to define it with some reference to the amount of rupees in circulation. I think that is your general idea?—That is a suggestion.

3741. You said, I think, that it would be well to have some serious step taken to ascertain the amount of the rupee circulation?—Yes.

3742. I suppose you know of the calculations that were made on that subject by Mr. Harrison?—Yes, and by Mr. Atkinson too, whom I knew personally.

3743. What were, do you think, the defects in those calculations? Did they not, as a matter of fact, make use of all the information that is probably available on a subject of this kind?—I do not know whether it would be quite right to quote one of the members of the Commission on that point, but Mr. Keynes thinks exactly with me. In his very able book which I have had the pleasure of reading, he says doubts were thrown upon the collection of the various statistics which were applied for the purpose of ascertaining this figure. The Government had certain rupees counted at certain centres, and I believe Mr. Keynes throws doubt, as many others have done, on the reliability of these countings.

3744. Do you think the data were wrong?—I have no knowledge; I merely say that that is the fact. I have had it said to me by statisticians in India that anyone who knows anything about Indian statistics knows that they are not worth a penny.

3745. What I wanted to get at from you was whether you thought the calculation of the rupees in circulation is not a problem which is indefinite in its nature?—Which is necessarily indefinite?

3746. Yes?—It is a very difficult problem. I believe that the statistics which give the gold circulation in England are not accepted as being absolutely definite, but they are approximate; and I think you may get a similar approximate estimate for India.

3747. Why I am asking you more particularly about this is that I think one reason why you would like to fix the reserve in some sort of proportion to circulation is that you think the circulation is a more definite figure than the amount which would impinge, as Sir Robert Chalmers said, on exchange?—The amount which would impinge on exchange you can never define, I think. That would be the amount which would seek external remittance, and what that is you would never ascertain. It would depend upon the extent of the crisis, the state of trade, and various other factors.

3748. Do you not think that the experience we have had of the past crisis of, say, 1907–8, is perhaps as good an indication of the amount that would be required by the public as any inference based on a calculation of the rupees in circulation?—Quite as good.

3749. Then with regard to the proportion of the circulation that should be fixed as the amount of the Gold Standard Reserve, you referred to the practice of the English joint stock banks as a sort of example; do you think that that is a direct analogy?—It is not a close analogy.

3750. Do you think it is an analogy which might be taken?—It is an analogy.

3751. Is it not the case, for instance, that the amount of the reserve which banks consider they require varies very largely according to the kind of banking business done?—I am taking the average of the whole of the joint stock banks in England and Wales; that is what I am basing my percentage on. They vary very considerably, undoubtedly, but I am simply taking the average.

3752. If you take another class of banks, they would give you a different percentage, would they not?—If you separated the banks you would get a different average, but I am taking the average of the whole.

3753. (*Lord Faber.*) I think in that instance of yours, you said the banks kept cash and liquid assets?—Cash in hand or at the Bank of England to the extent of about half of this 23 per cent.

3754. That is liquid assets, it is not gold; you know that, of course?—I have defined the whole thing. What I said was that the English joint stock banks keep about 23 per cent. of their liabilities in cash, at the Bank of England, at call, and at short notice.

3755. Not so very much of that is what you and I understand by cash, that is, gold?—A like proportion gives 46 crores, or say, about 30,000,000*l.* as the size of the reserve against rupee liability. Of this 23 per cent. the English banks hold about half in actual cash or at the Bank of England, which is the same thing.

3756. But it is not in gold. All I want you to understand is that out of that 23 per cent. not much is gold?—What is put into the Bank of England we look upon as gold. That is my point.

3757. They will not regard it as such. Why I say this is because we have a great discussion going on just at this moment, and the Bank of England have taken the standpoint that a balance at the Bank of England is not the same as gold?—It is perfectly certain that it is not, because the total balances at the Bank of England would shrink away the whole of the gold immediately—I admit that.

3758. They go on and explain it in this way, that the joint stock banks are so very big in England now that under certain circumstances it might not be possible even for the Bank of England to pay all their balances off in gold?—I can quite see that they could not.

3759. Because the outside banks are so big and strong?—Yes. Again, if the whole of the banknotes were presented to the Bank of England, the Bank of England would be insolvent. We know that, and we should suspend the Charter Act.

3760. Still there is a great deal of gold against the notes?—But still they are short. You have a note issue of 55 millions, and you have not that amount in gold at the Bank of England to meet it.

3761. (*Mr. Keynes.*) Your figure of the half of 23 per cent. is not an ascertained figure, but it is an estimate which is open to doubt, I think?—It is ascertained. I am taking some of the leading banks of the country.

3762. And you are applying the half of the 23 per cent. to other banks for which the figure is not known?—Precisely, because they have confused the two halves together in their balance sheets.

3763. So it is a case of not being an ascertained figure?—It is ascertained on the basis of four banks, the London County and Westminster, the Capital and Counties, the Union of London, and the London and Provincial.

3764. It is based on the assumption that all the other banks keep as good an average as those banks?—I should not like to say that; I am hoping that it is so.

3765. It is based on that assumption?—I am assuming that, in these figures.

3766. (*Lord Faber.*) The only point I am trying to make is that liquid assets at the Bank of England is not at all the same as gold?—It is not, I quite agree. When I say it is the same thing, I mean that in England it is looked upon as the same thing.

3767. (*Mr. Gillan.*) I would like you to consider the Paper Currency Reserve and the Gold Standard Reserve together in regard to the location of any gold that is contained in them. Do you consider, taking the general question, that as a whole gold held in India is more advantageous for the support of exchange than gold held here?—I should say gold held in England, most distinctly. You could then undoubtedly limit the demand to gold asked for by remitters, and I think it is the only safety of the present scheme that it should be limited to remitters.

3768. Gold that is drawn out from currency in a time of crisis, as it was drawn out in 1908, you consider does not support exchange?—It does not; it disappears.

3769. I want to put this to you, because this is a point which is put by those who hold the opposite view. If you take 15 rupees from a person in India and give him a sovereign, you have at any rate a contraction of the silver currency?—Yes, you have, it is true.

3770. Is not that the effect, as far as that goes?—You do not know whether the sovereign may not go into circulation, in which case it has not contracted the currency.

3771. You are contracting what I may call the dangerous part of the currency, the currency as to which you have a liability, because the sovereign is carrying its value with it?—You are creating no monetary stringency, but if money is wanted for export it will create monetary stringency; it will adjust the balance of trade in that way.

3772. Would you say that if the Government of India were again faced with a crisis, as it was in 1908, it should refuse to give up the gold it has in India for internal circulation?—It should certainly reserve its right, as it has reserved its right, and I think it should certainly be urged upon it, to issue that gold only for export. If it is in such a very strong position that it can safely give up the gold for internal circulation, very well, but otherwise it should reserve that right, and exercise it if needed, undoubtedly.

3773. As regards loans from currency about which you were asked, you said loans of that kind ought to be made on first-rate security, I think?—Yes.

3774. What had you in your mind in speaking of first-rate securities?—I had in mind Government paper in the first place. It is so difficult in India to find readily saleable securities of other kinds; you have not the same market in India that you have here.

3775. You are aware that in other countries the expansion of the note circulation is allowed against bills of exchange, are you not?—Yes, that is so.

3776. What do you say to that, in connection with India?—I never was sufficiently acquainted with the hundi market to be able to express any opinion. It is the only market I was not familiar with.

3777. Lastly, as regards a State bank or a central bank; I do not know that this question has been put before the Commission yet, but one has heard a great deal in connection with these proposals of the difficulty that would arise as a consequence of the rivalry, or the distinction in interests, between the different parts of India—between, for instance, Bombay and Calcutta; do you think that is a serious difficulty in the way of a State bank?—It should not be a serious difficulty, but it always has been a difficulty. I think it was the rock upon which the scheme foundered in the previous case—in 1900 I think an attempt was made to found a central bank.

3778. Do you think it is a difficulty which can be got over?—I think myself that it would be a great advantage if the three Presidency banks were amalgamated, without any attempt to raise a large additional capital as is suggested, and upon which it would be difficult to pay dividends. I think the union of the three banks would be very preferable.

3779. How would you provide for the representation of those different interests, if you say that is a difficulty on which the proposals foundered on a previous occasion; how would you avoid it, or get over it?—I think it would require a diplomat rather than a merchant to deal with that question.

3780. (*Sir James Begbie.*) In the matter of Council bills you have stated objections to the proposal that the bills should be sold only at 1*s.* 4*d.*, and you have made the remark that the Secretary of State would always be the last to be served if he held to the 1*s.* 4*d.*?—If he held for any fixed price, yes. If he holds for any fixed price it practically amounts to this, that there is a permanent and standing offer in the market at such a price, and therefore every wise man will endeavour to transact his business at a rate which is a little, ever so little, better than that.

3781. Is not the Secretary of State the last to be served when exchange conditions are not favourable, whether he holds out for a fixed rate or not?—When exchange conditions are not favourable, and there is no demand for Council bills. If there is no demand for Council bills, there is very little demand for remittance to India possible.

3782. Therefore he is left?—He will be left as soon as he gets down to the minimum 1*s.* $3\frac{29}{32}$*d.* He need not be left, because he can continue to sell at any price, but he does it at his peril, because it will come back in the shape of sterling drafts from India at a profit.

3783. You are not in favour of the sale of drafts against the Indian branch of the Gold Standard Reserve, nor against new coinage except at specie point, I understand?—The specie point is very difficult to fix, I admit, and the specie point in India is different from the specie point in Egypt and Australia. My only reason is that the addition of new currency to the existing currency should be made in the last resort, and you can only arrive at the last resort by having a maximum price and the market paying that price.

3784. In the case of sales of bills against, say, silver coinage, would you suggest that a change should be made in the way these bills are sold? Is there any object in putting them up to auction, for example?—If you put them them up to auction you do not fix your specie point; you auction them the same as Council bills.

3785. That is the very object in offering them by tender, is it not?—They would fetch no more than old

rupees such as are already in the Treasury. It is indifferent to a man who is buying rupees in India whether he gets new rupees freshly coined or not.

3786. I am putting the case that the Government are selling bills against a silver coinage?—In other words, it supplies its needs with Council bills, and has no more to sell; is that what you mean?

3787. I am supposing it is only selling against the silver coinage?—A man would not do that so long as he has other balances to draw on, therefore we will assume that the Secretary of State has exhausted all the other available resources, and then he should hold on for the specie point; in other words, he should then fall back upon the law, and the law is that if you tender sovereigns to the mint in Calcutta and Bombay, you receive 15 rupees for each sovereign, or that if you tender gold to the Paper Currency Department you receive rupee notes at the same rate. If he is asked to act under that law in this country, then he should not sell those 15 rupees for 19*s.* 9*d.*, but he should sell them for the full sovereign plus the carriage. It is complicated, I know, by the gold which goes from Egypt and from Australia. It is a very complicated and a very difficult point, but that is just my general idea of it.

3788. Is there any object in offering these bills for tender? Would it not be enough if remitters simply came and said they wanted so much, because the rate is pretty well known, and you can always tell what the rate is? Practically it would be very similar to what is done in ear-marking gold, would it not, at 1*s.* 4$\frac{1}{16}$*d.*?—It is practically the same thing, only in the one case you are taking rupees which exist in the Paper Currency Department, and in the other case you are taking new rupees which are to be coined specially. My only reason for making the difference is that the Government should only in the last resort issue 15 new rupees for every sovereign, and they would only know when the last resort has been arrived at by the willingness of people to pay the top price.

3789. We have had it in evidence that the India Office, in selling bills, have not paid any attention to the specie point?—That has been alleged.

3790. They admit that they have sold bills, and will go on selling bills so long as they keep exchange between the two specie points; do you agree with that?—I think they certainly should meet the market, and of course make the best rate they can for the India Office with regard to any rupees which are part of their balances, either against Council bills or against excess collections such as we have had of late. Certainly they should meet the market.

3791. Or against a Gold Standard Reserve in India?—I think in my précis I have included the Gold Standard Reserve as a thing which should be held at the gold point, but on carefully thinking it out since submitting my précis I would like to withdraw that, because I see that in issuing rupees from the Gold Standard Reserve in India the Government is getting its pound's worth of gold, and therefore it is not holding only one-third as it would do in the case of a further issue of rupees.

3792. It is a fresh addition to the currency, is it not?—It is in a way. It was originally a fresh addition to the currency which has returned as against sterling drafts. I am now speaking not of the original six crores, but I am speaking of those transactions that took place in 1907–8. So far as regards those original six crores, certainly my reason would apply if they were new rupees. I am now speaking of the currency reserve as a working concern which absorbs and releases them. As regards any old rupees which have been absorbed, the Government, I think, should issue them as freely as it could from the Treasuries, but with regard to new coinage, not.

3793. You would not apply the specie point, then, to those old rupees?—Not to the old rupees which had been absorbed in the 8$\frac{1}{2}$ millions which had been remitted.

3794. Regarding the establishment of a State bank, would you say there would be unfair competition with the exchange banks if the State bank was empowered to remit on account of Government the home charges amounting approximately to about 24 crores, say? I ask the question because you put down in your précis the fact that the total foreign trade of India last year was about 485 crores. If the State bank remitted the Government's home remittances, which amount to, say, 24 crores, would you call that unfair competition?—At present the Council bills are a very big factor in the operation of exchange banks. They are most useful, we know, and in all probability if they were handed over to a State bank it would be a certain inconvenience and interference with the established banking practice of the exchange banks. It would give rise to objections and jealousies, I think. Moreover, if the Fowler Committee were right in specifically limiting the operations of the State bank to internal purposes only, it would be exceeding their recommendation to give it a right of entry to the London market.

3795. You consider the size of the Gold Standard Reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve?—Yes.

3796. But you do not consider the Gold Standard Reserve by itself is ample to secure stability of exchange?—No, because the Gold Standard Reserve contains no less than four millions which are in silver, so it is only about 18 millions strong, and I do not consider 18 millions of gold is a sufficient Gold Standard Reserve at present. But coupled with the enormous holdings in the Paper Currency Reserve, it is ample and more than ample.

3797. You stated that with a properly constituted Gold Standard Reserve held here, there should be no need for holding here also any portion of the metallic reserves of the Paper Currency Department?—You would be holding two funds for one and the same purpose in that case.

3798. Do you think that under any circumstances a portion of the Paper Currency Reserve should be held in London?—In any circumstances? It has been urged frequently that it is serviceable in expediting the purchase of silver for currency purposes. That could apply to only a small proportion of the gold which might be held. At present it is not very large, but it might be, and has been larger, I think.

3799. It has always been held that it might be useful in the case of a crisis?—It would be equally useful in India, seeing that the Government reserves are ultimately open only for issue to remitters or exporters.

3800. Do you think there is some danger of gold held here causing some discredit to the note issue in India?—Causing discredit on the ground that it is not sufficiently secured?

3801. On the ground that the money intended to redeem the notes is not available on the spot?—Yes. One of my reasons is that the Paper Currency Reserve is primarily intended to secure the convertibility of the note, and therefore it should be held in India; but as the note is payable at the option of the Government in silver, it is not necessary that gold should actually be there against the notes. They are not gold notes so far.

3802. No, but still you have power to issue gold?—If the Government wishes and considers it safe to do so, yes, but in a crisis they might not. They could issue silver only.

3803. I do not know whether you are aware of the fact, but we have had experience in Bombay of serious runs on banks. The banks have been discredited for no good reason, and there has been a run upon them. That has happened more than once. There is the fact that people do take fright sometimes and make a run on a bank, so that we might have a similar instance of discredit in the case of the note issue. It is, therefore, a question in my mind whether it is advisable to hold the gold of the Paper Currency Reserve in London?—I think not; I think it should be held in India. But you must have sufficient gold reserve here, otherwise I do not consider your present Gold Standard Reserve would be sufficient.

3804. The gold in India would still support exchange?—Yes, undoubtedly for internal purposes but it might not for exporting.

3805. (*Chairman.*) How would you propose to secure that gold issued in India in the circumstances you are contemplating should be used only for the support of exchange?—I do not know what measures would be necessary, but I know that it is done. Holland is doing it at present. She is supplying gold freely for export, but she does not bind herself to supply it for internal purposes. I suppose it is done on certificate, possibly in the same way that opium is shipped to China on certificate.

3806. (*Sir James Begbie.*) I gather that you are not in favour of doing anything to encourage the use of gold as currency?—No, I am not in favour of the Government encouraging it. I do not think it is necessarily a function of the Government to do that, but if the people wish to have a certain currency the Government should not interfere.

3807. The people should get gold if they want it?—If they wish it; and the Government should neither specially push it on them, nor arbitrarily interfere with their right to get it.

3808. Have you heard that sovereigns are now freely circulating as currency in certain districts?—Certainly; that is so.

3809. Does that fact not prove to you that gold coins are not unsuitable for circulation purposes in India?—I do not think they are unsuitable. Historically, I believe it is a fact that there was a gold circulation.

3810. Do you think it is possible that in other districts where hitherto rupees have been the only or the principal medium of exchange, a change to the use of gold may develop?—I think it is possible.

3811. Let us suppose a position similar to that which we had in 1908 after the crisis of 1907, when the gold reserves fell to a low point and the reserves of rupees were high. I suppose you would agree that such a situation might again be experienced? At such a time the natural desire of the Government would be to see the flow of currency reversed, surplus reserves of rupees re-issued to the public, and the gold reserves restored?—Yes, that would be so.

3812. Suppose the position has changed in this respect, that a great demand for gold as currency has developed; if the currency tide were reversed, the public demand might be for gold coins?—It might.

3813. How would you deal with a situation like that with your reserves full of rupees?—Do you mean would the Government tender notes? The public could import sovereigns, and they are doing so at present. It would not affect the Government if they imported sovereigns in exchange for their produce.

3814. But how would the Government get the gold reserves restored if the gold went into circulation?—If the Government never issued the rupees it would never want the gold backing to support them, because they would be locked up in the Treasury.

3815. Then the rupees would be left in the hands of the Government?—*Pro tanto* the Government liability would be lessened by the amount of gold that is given out for rupees.

3816. The gold reserve would cease to exist then?—If India became a gold currency country the position might not be unlike that of the United States, where they have an enormous amount of dollars which cannot get into circulation which are in the cellars of the Treasury. It rests entirely on the habits of the people. It may come, but if it does it will probably come gradually.

3817. You stated as an objection to the 10-rupee coin that it might check the circulation of the 10-rupee note?—I think so.

3818. Do sovereigns check the circulation of notes?—There is no comparison there.

3819. Not as regards the amount?—The small 10-rupee note is less than a sovereign, and the larger notes which are used for trade purposes do not compete with the sovereign in identical amount. If you had a coin which actually competed with an existing note it might possibly be—I do not know, and I should not like to make predictions about things Indian—that it would affect the circulation of the note to which it was of equal value.

3820. But so far the note circulation is not affected?—So far it is not. I would rather attribute the increased circulation of the note in India to the abolition of the circles—that is, to the universality of the note, than to the mere fact that it is due to other causes.

3821. You also fear that the 10-rupee piece might become popular as a new ornament and disappear from circulation?—It possibly would. That is the opinion of some of the most persistent attackers of the present system, "The Times of India" for instance.

3822. Even if that proved to be the case, would it not be an advantage in so far as it reduced the necessity for fresh silver coinage?—Not if it disappeared—only if it passed into circulation.

3823. Instead of issuing fresh silver coins, if the 10-rupee coin went into the hands of the public——?—And became an ornament, it would not affect the circulation.

3824. But it would save the Government the necessity of coining?—How would it?

3825. If, instead of coining fresh rupees, they issued 10-rupee pieces?—No, because they would have to issue 10 rupees for trade purposes, but if they are issuing 10-rupee coins which become ornaments on a woman's neck——

3826. Does it make any difference whether the coin goes into circulation or into hoards?—I think so on exchange. The rupee will come back possibly for export, the ornament is less likely to do so except in the case of famine, when the ornaments do come back we know. I think there is a great difference between the two cases, if I may respectfully suggest that.

3827. (*Sir Shapurji Broacha.*) You say the Government must not allow great accumulations of money, but that they should deal with the surpluses of India as surpluses are dealt with in England, and let them go to a sinking fund for the reduction of debt. Say, for instance, that they have a surplus of 7 millions this year and apply it to liquidate debt, although they may have shortly to borrow 7 millions, and are wanting 15 millions or 12 millions for public works; would it not be a great advantage rather than reducing taxation to go on building with the surpluses public works which are so fruitful?—In the first place, you say, Would it be advisable to pay back those debts if you are going to raise fresh debt shortly? I think I have already answered that. In reply to Sir Robert Chalmers I said if it is a near liability no; but if it is a liability of two or three years hence, then undoubtedly that should not interfere with the proper use of the sinking fund.

3828. India wants 12½ millions or 15 millions for public works every year, so it would make very little difference on the whole. These large surpluses are accumulated owing to certain causes. Take the opium, for instance, the Government could not have reduced that?—No.

3829. Then there was about 7 millions of revenue which the Government could not have anticipated, so that out of a surplus of 22 millions 13 millions belong to two items which the Government never anticipated?—But the fact is that according to their own apology or excuse they hold up these large balances while at the same time borrowing or renewing debt.

3830. That would be a very complicated transaction from a merchant's point of view and a banker's point of view?—Very. I think they are wrong, and I venture to submit to the Committee that it is an apologetic excuse, but not a sufficient defence.

3831. Should they use their surplus to reduce the debt, or to build railways and other public works?—They did neither one nor the other, and I have submitted a case where Sir James Westland did both.

3832. What did he do?—He had a surplus of 10 or 11 crores in 1894–5 owing to his holding up of Council bills in 1893. The result was that he was landed with 10½ crores of rupees stored in his treasuries which he solemnly undertook not to spend on railways or other purposes, because it would interfere with his currency scheme. He pledged himself to that in his budget of 1894–5; I have his exact words. Within 18

months he had spent those 10½ crores (which was a distinct breach of faith that we ventured to accuse him of at the time) on railways partly and partly in avoiding rupee loans.

3833. That is a long time ago?—Do you wish me to say whether we should use that surplus for railway or other public works? If you mean to say that a surplus which shows itself at the end of a financial year is to be employed in public works, then I say that that is a most vicious and demoralising way of budgeting. All public works, railways, &c., should be duly set forth in the budget, and should be criticised in the Legislative Council.

3834. How would you budget the next year's railway revenue—on the basis of this year's, I suppose?—But you always estimate before you say what you can allow for railways year by year.

3835. Take two consecutive years; if the railways have earned a certain amount in the first year, I suppose you would budget for the same amount the next year in order to be safe, but at the same time you are not sure what the monsoon is likely to be?—I am not thinking of the earnings, I am thinking of the expenditure. Assume that we have budgeted for an expenditure of 12 millions on railways for this next year, and that at the end of the year the Government finds itself in possession of a surplus of 5 millions, are you suggesting that they should spend that on further railways or public works? It has not been budgeted for, it has not been agreed to, it has not been criticised or debated in the Legislative Council, and I think it is wrong.

3836. (*Chairman.*) May I put the case to you as it appears to me, which is not exactly as you see it? Supposing the Government has a railway programme requiring 12 millions and they budget for a surplus over their current expenditure of, we will say, 5 millions, out of which they propose to pay a part of that railway expenditure, and they propose to borrow the other 7 millions required to carry out the whole of it. As the year goes on the revenue comes in so well that they find they have a surplus not of 5 millions but of 12 millions, and they then spend the extra 7 millions of surplus in that railway construction. Why should they pay off debt with it on the one hand, and borrow 7 millions in the London market for railway construction with the other?—Was that not dealt with in my previous remark, that if the borrowing is near, certainly they should avoid the borrowing? Then it is the same thing as paying off debt; but if it is a question of wanting to borrow two years hence, then I say that should not be allowed to interfere with your paying off floating or other debt.

3837. Do you suggest in the case of the balances of recent years the Government in deciding what to do with them consciously postponed their use for two or more years?—I do not know the mind of the Government, but I know what happened. I know that the balances steadily accumulated year after year for two or three years, and that it was not owing to extraordinary circumstances that these additions were made, because the existing balances were due to known circumstances.

3838. Was not the unexpected balance of the first year worked off in the main pretty quickly, the high figure at the end of the second year being the result of another surplus, not of the retention of the first surplus?—The total net surpluses were about 10 to 11 millions according to the statement, but the balances were higher than that; the balances were 18 millions to 20 millions, I believe, at one time.

3839. (*Mr. Gillan.*) I do not know whether you think that the railway expenditure is suddenly made without being budgeted for. In the case you put that is not what happens. The extra surplus of one year is carried forward as a balance to start the next year, and it is on the basis of that balance that the railway programme for the following year is built up?—That I would agree to; but that surplus was carried forward in the shape of a cash balance which grew; in other words, whatever way you look at it these balances were not expended.

3840. What has happened—have they disappeared?—This year they have disappeared—after four years as a matter of fact.

3841. They have finally been reduced?—Finally.

3842. And in the meantime you have maintained a railway programme of 9 or 10 millions a year with practically no borrowing?—The question, of course, suggests itself to one's mind how far this rapid reduction of the balances has been due to the clamour that has been raised.

3843. (*Sir Shapurji Broacha.*) Do you say the gold against the currency circulation should not be kept here?—I think as the sole purpose of the currency reserve is to secure the convertibility of the note, necessarily that implies that the metallic reserve should be kept where the note is.

3844. What difference would it make when the holder of the note knows that so much in silver and so much in gold is placed there and in England? You are not afraid, are you, that all the gold will be taken away in a day and there will be no time to send the 7 millions to India?—I am not afraid, and I do not think many people are really afraid, but it has led to very great outcry.

3845. There are a great deal too many outcries which are created not by the people but by outsiders?—The result of the outcry is this Commission.

3846. What difference does it make? Is not the first line of the defence of exchange not to give sovereigns against rupees?—My own idea is that that is a mere phrase. The first line of defence for a currency system which is not based on a gold currency is undoubtedly the fund which is raised to secure the exchangeable value of the rupee. Therefore the first line of defence for such a scheme exists in the Gold Standard Reserve.

3847. Is it right to disturb it so long as you have the Currency Reserve to pay against it and maintain the exchange?—I think I have said I would not disturb it until the Gold Standard Reserve is placed at a sufficient figure.

3848. What good is there in sending that seven millions to India?—What benefit do you derive by keeping it here?

3849. At present I should keep it here. You can draw on that gold, but then you have to pay double expenses?—At present—I quite agree, and I have said so.

3850. There is no great force, then, in the argument that that gold should be in India and not here?—The objection I see to keeping it here is that if you once get a sufficient Gold Standard Reserve to secure the convertibility of the rupee it is not necessary, and it is certainly necessary, or ought to be necessary, where the note is circulated

3851. It is kept here by law; they passed a law to that effect?—Not to keep it here, but that it may be kept here.

3852. The people of India know that law?—Yes.

3853. And the people have not been very uneager to take those notes, because the circulation is increasing?—I admit that.

3854. Do you think that the 10-rupee gold piece would check the circulation of the 10-rupee note?—I think it might.

3855. The circulation of this 10-rupee note has increased the total circulation; would it not be a waste, therefore, to have 10-rupee gold pieces and drive away 10-rupee notes?—Quite so.

3856. If for no other reason than for the loss in weight?—Quite so.

3857. I suppose you know that when Lord Goschen spent about 900,000*l.* in restoring the weight of the gold coins, about two-thirds went into the abrasion of the half-sovereign pieces, and only about one-third into the other?—I know that.

3858. The smaller the coin the more danger there is in that direction?—That is true.

3859. If the people once know the value of the note they will know that a 10-rupee note will bring them as much as 10 rupees in gold or 10 rupees in silver; that is to say, it will buy 10 rupees worth of goods on the market?—Yes.

3860. It will do that just as well as a 10-rupee gold piece?—That is the very essence of a paper currency.

3861. So there would be no great benefit in having a 10-rupee gold piece?—None.

3862. While, of course, there would be an absolute loss in the weight of the coin?—I see no need for an alteration.

3863. I think you are not very strongly in favour of a State bank?—No, I am not.

3864. You see difficulties in the way?—I see great difficulties.

3865. You say a State bank would have one advantage when it is borrowing money from people, that it could assure them of the safety of their money?—A State bank would have a prestige if it were recognised as a State bank.

3866. Do you know that such banks do not allow interest?—They take deposits.

3867. Most of the State banks do not allow interest?—A bank like the Bank of England would not allow interest on deposits.

3868. The Bank of France does not allow interest?—The Bank of France has a special business of its own.

3869. Never mind what you call it, but they do help the small persons by borrowing their money and ensuring them the safety of their money?—I have had conversations and correspondence on this subject, and it is held that the Shroffs would be largely depositors with a State bank, which they are not with the Presidency banks. How far that would go Sir James Begbie can probably tell the Commission.

3870. I suppose the rules for lending by the State bank would be the same as the rules for lending by the Presidency banks?—I would not like to predict what the rules would be.

3871. It would lend on authorised trustee securities?—I cannot say. That is entirely a thing in the air so far.

3872. If that were not done by the State bank it would in a way weaken the strength of those securities?—The charter of the bank would have to be drawn up and agreed to. I cannot say what it would contain.

3873. Do you think that in lending small sums as the Bank of France does, it would be any benefit to investors?—The Bank of France advances down to 150 francs, I think.

3874. They will discount a bill down to 25 francs, they will even go down so low as 5 francs. Would a State bank do that? Would they advance in that way for the benefit of the interior trade or industry?—I pointed out that it would take a very well trained and a very large and very expensive staff to do it in India. I doubt whether it would be done.

3875. I agree it would be very expensive, and that it would require a very large staff, and I suppose the Government would not save much; I suppose, for instance, that all their travelling staff in the accounts department and other departments would still have to be maintained?—That I cannot say.

3876. (*Mr. Keynes.*) Do you think it possible that a State bank might attract a new class of depositors?—I think it is possible.

3877. Is it possible that the co-operative societies would themselves bank with the State bank, and that it would be a convenience to them?—I do not like to make any prophecies at all about that.

3878. If the State bank were to enter into exchange to the extent of carrying out the Secretary of State's remittances and no further, that would involve some interference with the existing interests of exchange banks, would it not?—It would involve some interference.

3879. Is this a case where vested interests ought, in your opinion, to be respected?—That is an exceedingly difficult question. I have a great respect for vested interests in any walk of life. If the Government is convinced that this would be for the benefit of the people as a whole they can override any vested interests. It is merely a question for the Government, not for me.

3880. That is a general principle; you have not any opinion as to its application in this instance?—No, I have not.

3881. (*Sir Ernest Cable.*) Sir Robert Chalmers, I think, put to you the question that perhaps the use of cheques might curtail the circulation of currency notes; from your experience in India, do you think that cheques will be used at all throughout the whole country beyond the Presidency towns?—Not within any period that I can look forward to myself. They will be confined to the Presidency towns' business.

3882. And that is very nearly covered by cheques, I should think?—I supposed so until I read the complaint I have previously mentioned.

3883. Still, the fear of curtailing the currency note issue by reason of the increased use of cheques is rather problematic, after all?—I should think cheques would rather be an addendum to the note circulation than a substitution for it, granted a continuous expansion of trade.

3884. A good deal has been said about the surpluses of the Government in India and their application. I believe it is a fact that the development of the country would have been crippled very much unless those surpluses had been devoted to productive works. That being the case, do you still object to those surpluses having been created, so to speak, by taxation?—What has happened apparently is that the revenue of the Government of India has been anticipated by a year or more; in other words, the Government has collected more for a given year in some shape or form, from opium or from railways or from the taxpayers, than it should have done; in other words, the taxpayers of the country have been deprived for that one year, or for a longer period, of the use of their own income or money, as the case may be—of their own products, the Government having deliberately withdrawn that from the taxpayer. The rupee with which he paid his tax is only a token, but what has really happened is that an equivalent amount of produce has left the country as against those taxes, and the taxpayer has lost by paying his taxes before they were due.

3885. There is a school of finance in India who hold the opinion that a steady unfluctuating rate of taxation, not reducing immediately there is a surplus, but keeping it as steady as possible, operates better for the welfare of the inhabitants as a whole, because the surplus is returned to India in the shape of productive works from which the agriculturist benefits. You do not hold that view, possibly?—I do not object to the revenue being kept on what you would call apparently a normal basis, and I do not object to taxes not being reduced in such circumstances, but I do object to taxes having been imposed when events have proved that with a little more optimism they would not have been required.

3886. With regard to the loans by Government to the Presidency banks and others, you suggested that the Government should lend at somewhat below the bank rate; otherwise the market—you used these words—would not be tempted to borrow. It is not the business, you will admit, of the Government to tempt people to borrow their money, is it?—I agree, only I think the question arises in connection with the duty of the Government to assist trade by loans in India as well as assisting the London market by loaning in this country. That is how I put it. If you make it the duty of the Government to assist trade by loans, then you certainly must make it the duty of the Government to assist it at a rate which will be a profitable one to the trade that it is helping. If the Government is going to exact the uttermost farthing it puts an impediment on the free use of its balances. I think that Lord Faber put the matter on very sound ground when he suggested practically putting them up for tender. I think that would quite meet my views, and it is a much better way of putting it than I had myself ventured to suggest.

3887. It is a notorious fact that India cannot borrow enough money for its development on the terms of the present moment. Do you think by increasing the rate of interest we should get all we want in that way?—India is not singular in that respect in these times, and the loans which were raised in India in rupees stand at

a very high figure comparatively. I have always been inclined to think of late years that the Government might often borrow better in India and increase its balance in India rather than face the very much oppressed London market.

3888. Have you any remarks to make on the subject of the largely increasing exports of gold to India? Do you think, for instance, that they would seriously interfere with the sale of Council drafts?—They have not done so.

3889. And you do not think that they ever will do so?—I do not see how they can if the Secretary of State meets his market freely. They will never ship gold if they can get Council bills at a better rate. I have only mentioned the specie point in connection with new coinage, remember. Otherwise I should suggest that the Secretary of State will do the best for himself if he meets his market freely.

3890. I gather generally from your memorandum that if existing interests are safeguarded you have no objection to the institution of a central bank or a State bank?—No, certainly not. My only objection to any State-aided institution is that it might interfere unfairly with private enterprise. I think that what is wanted in India, as in most other countries, is more private enterprise and less State interference.

3891. It is suggested that because there was no popular demand—I think these were the words—for such an institution, therefore it should not be given, but I would ask you, as a man with Indian experience, whether in most matters in India there is not very little popular demand?—In what way am I to understand that popular demand—on the part of the European community?

3892. I mean there is very little expression of opinion?—Very little. Opinion there is not focussed in the same way as it is in this country.

3893. I think I heard you say that you had no experience of the hundi market?—I have no personal experience of it.

3894. So perhaps it is no use for me to ask what is your opinion as to the value of the hundi as a document?—As a security, no.

3895. You do not think it is particularly sound?—Not being acquainted with it, I would rather not answer.

3896. When the Fowler Committee used the term "gold" in connection with the Gold Standard Reserve do you think that they meant to include sterling securities?—No, certainly not. I think their report is extremely clear and decisive. May I just read you two or three words that I had noted about that point? The following words seem to me quite decisive on that point. In paragraph 60 of their report, speaking of this Gold Standard Reserve, they say it is to be kept "entirely apart from the Paper Currency Reserve and "the ordinary Treasury Balances." That implies, I take it, absolutely, that it was to be kept in India, because otherwise, if it was to be kept in another country, why put in the words "entirely apart from "the Paper Currency Reserve and the ordinary "Treasury Balances"? It must be apart if kept in England. Therefore, I think the very fact that they said keep it apart from those things which existed in India must imply that it was to be kept in India. With regard to what it consists of, the following words taken from paragraph 59 seem to me rather conclusive, "if the exchange showed a tendency to fall below specie "point, the Government may remit to England a por-"tion of the gold which it may hold." I can only read that to mean if they had gold in India they should remit gold back; and again, "when it has "accumulated a sufficient gold reserve, and so long "as gold is available in its Treasury, it might "discharge its obligations in India in gold."

3897. And that was the general commercial opinion throughout India?—That it was to be held in gold? I will not say whether I consider it an unwise or wise system, but I think the present system is working better than the one suggested by the Fowler Committee would.

3898. (*Chairman.*) You said just now, in answer to Sir Ernest Cable, that you thought the Indian Government might with advantage borrow more in India and less in London?—I do think so.

3899. You added that you thought that what India, like a great many other countries, suffers from at the present time is an excess of Government enterprise, and that it would be an advantage if more were done by private enterprise?—I think that is always the case, especially in India. It would be an advantage if more opportunities were given to private enterprise.

3900. Do you think that the Indian Government could reduce their need for borrowing for development purposes if they made the terms rather more attractive to private enterprise to carry out the same works?—The accusation has been made for years, and repeated, and I have read a great deal on the subject, that the promoters of railway enterprise have great trouble in securing concessions for the construction of railways in India. That has been a complaint of long standing. How far it is justified I do not take upon myself to say, but that it has existed, and has been repeated, is a fact.

3901. Have you heard much complaint, or any complaint, as to the use by the Indian Government of their rights of pre-emption?—When railways have been taken over by Government there have been loud complaints at times.

3902. Do you think that some change of policy in those respects would lead to the influx of private capital in larger amounts than has been the case?—Now that the exchange value of the rupee has been secured, I certainly think it would. Previously, with open mints and an unstable currency, I should not have thought so.

3903. You would desire the Indian Government, then, I gather, to take into their serious consideration whether they could not attract more private capital, and so lower their own needs for borrowing, by some revision of their policy in this respect?—Yes, I do.

3904. You spoke in your précis (Appendix XIX., page 544 paragraph 6), and I think in answer to Sir Robert Chalmers, of the greatest need of the present time being a code of clear regulations on the subject now engaging the consideration of this Commission?—Yes.

3905. In answer to Sir Robert Chalmers you suggested certain regulations in respect of the Gold Standard Reserve. I do not think that you mentioned any other subject on which you thought new regulations desirable?—It was in connection with that part of the précis headed "Gold Standard or Gold Currency," (Appendix XIX., page 543) and I was thinking solely of the maintenance of the rupee and the regulations necessary for that end in making those remarks.

3906. The regulations you had in mind were such regulations as you have spoken of in dealing with the Gold Standard Reserve, were they?—Yes.

3907. You wish them, I think, to be statutory regulations?—I wish the Government to undertake, either statutorily or in any other binding form, its responsibility with regard to this currency.

3908. You have also expressed the desire that the amount of the Gold Standard Reserve should be fixed, not by mere guesswork, but on some definite principle or analogy?—Analogy, principle, or experience.

3909. You have told us at what amount you would fix it if you followed what you called the analogy of the English bank?—Yes, I have.

3910. But I do not think you have told us at what amount you would fix it if you acted in the light of the experience of the crisis of 1907-8?—I think it figures out to very much the same. Taking the loss of gold at 17 millions, plus about 3 millions Council bills, the shortage for the year, speaking from memory, was about 20 millions or 21 millions, and I said there should be 50 per cent. for apprehension, which would run to 30 millions again, which would be the same figure as I got by the other formula.

3911. And of that you would in the same way keep half in actual gold?—I suggested that as a basis.

The witness withdrew.

At the India Office, Whitehall, S.W.

TENTH DAY.

Thursday, July 3, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir ALEXANDER MCROBERT called and examined.

3912. (*Chairman.*) Would you be good enough to tell me briefly what your Indian experience has been?—I have been 29 years in India, and I have been the whole of that time engaged on woollen manufacture. I have been chiefly resident in Cawnpore, but I also have a close connection with an associated institution in the Gurdaspur district of the Punjab.

3913. I think for some time you were president of the Upper India Chamber of Commerce?—I was.

3914. You were also a member of the Legislative Council of the United Provinces for eight years?—Yes.

3915. Do you appear before us to-day in a representative capacity?—Yes. I have been nominated by the Upper India Chamber of Commerce.

3916. May I ask you first about the balances? What do you say about the cash balances in London in recent years?—From the returns I find that the closing balance on 31st March 1910 was nearly 13 millions; the following year it was 16,700,000*l.*, and in 1912 it was 18,400,000*l.* Then apparently in the course of last year they began to use up these balances, and it was reduced to something under nine millions on 31st March 1913, the normal working balance, as I understand, being approximately four millions.

3917. Do you regard the recent balances as unnecessarily high?—It is a little difficult to answer that yes or no, because it is like being wise after the event. I have no doubt the India Office uses a wise discretion in keeping its balances up, and it seems a little hard upon them now when we know all about it to say that they should have done something different.

3918. You do not blame them, I understand, for not having foreseen that their balances would be so high, but looking back on events with the wisdom which comes afterwards, you think they were higher than they needed; does that represent your view?—As regards the criticism that I would offer, it is really in a way limited to what seems to me the somewhat unnecessary renewal of India bills during that period.

3919. Do you think outstanding India bills might have been paid off?—I do think so. Might I mention in what respect I find that they might have been paid off, even assuming that the India Office could not see into futurity?

3920. Please?—I find that the first year of what might be called an abnormal balance was the year ending 31st March 1909. The balance then was just under eight millions, which is about four millions more than is regarded as a normal working balance. The following year it jumped to 12,800,000*l.*; then the figures I have just mentioned follow—16,700,000*l.* and 18,400,000*l.* The figures I have here relate to 1910–1. During the year 1910–1, after having started with four millions in excess of the normal working balance, the loans floated were 7½ millions and the debt discharged only 1,800,000*l.* During that year India bills were renewed in April to the extent of one million, in June to the extent of 2½ millions, and in December to the extent of 1½ millions. Apparently the following year, starting with a surplus balance of 10 millions, these same bills were once more renewed with the exception of half a million, that is to say, in April there was a million, in June two millions, and in December 1½ millions.

3921. I understand you to suggest that the India Office might properly have used a part of those surplus balances to pay off those bills as they fell due?—Yes; my suggestion is that that might have been done.

3922. It might have been done with advantage in the first of the two years, and if it had not been done in the first it should have been done in the second?—It might have been done in the second.

3923. It has been put to us in evidence on the other side that this renewal of bills or raising of loans was done in accordance with the budget estimates, and before the unexpectedly favourable results of the financial year were known; what would you say to that?—I find that Mr. Montagu, in the House of Commons on 30th July last year, explained that the balances were largely due to under-estimating in India, meaning I take it, under-estimating revenue. It seems fairly clear that he was substantially correct. At the same time the India Office knew that they had these opening balances.

3924. Do I understand you to think that with the knowledge they had they might have revised the estimated programme, and it would have been wise to do so?—I think so.

3925. Have you ever considered whether the date at which the Indian financial year begins could be altered with advantage, from the point of view of enabling the finance minister to estimate more accurately the prospects of the year?—I have not considered the point.

3926. I am right, am I not, in thinking that the realisation of the estimates in India depends almost entirely upon the results of agriculture?—Precisely.

3927. And therefore on the weather?—Yes.

3928. And that the estimates have to be made at a time of the year when the weather is still impossible to forecast?—Quite so.

3929. Have you any objection to the system of lending out Indian balances in London?—No, I do not think I have. It seems to me that since the balances existed they were better in London than anywhere else; they could not have been used in India, and they could be used in London. Apropos of those balances, a certain income was derived from them, so that really the only loss, assuming that they had paid off the bills I speak of would be the difference in the rate.

3930. Did I understand you to say that the balances could have been lent out in India?—The balances in India are not available for the purpose of lending as they are in London, although it seems to me that if the India Office can lend in London there is no reason why the Government of India should not lend in India.

3931. You would like, then, to see the balances in India made available for lending?—Whenever that is practicable; whenever the Government of India feel that it would be safe to do so.

3932. To whom, do you think, they should lend in such circumstances?—I am inclined to let them lend to anybody who would give the proper security, but primarily I would say to the Presidency banks.

3933. Would you be inclined to make a list of approved borrowers in India on the lines that have been followed in London, or to say merely within the limit of our means we will lend to anyone who deposits certain named securities with us?—I think that, at least at the beginning, I would certainly limit it in the first place to the Presidency banks, and perhaps the exchange banks if they care to have it.

3934. I understand that from them you would ask security?—Yes, I would.

3935. What securities would you lend on?—Government paper.

3936. Would you include Port Trust securities?—I think I should.

3937. Indian railways?—I do not think any such securities are to any extent held in India.

3938. Suppose the Government had been in the habit of lending out up to, let us say, a sum of two millions in the busy season, and suppose they had done that for two or three years, and then there came a year in which their balances were not sufficient to enable them to make the loan, do you think that would have any serious effect upon the Indian money market or trade?—It might cause a little extra inconvenience until matters adjusted themselves, but in the end they would be no worse off than they are now.

3939. You do not think that they would be worse off because they had come to expect this relief from the Government?—That, I am afraid, is more a matter for a banker to say. I should not like to express an opinion on that.

3940. Do you not think it rather likely, if they had received this assistance from the Government in several years, and suddenly, in what was probably a rather difficult time, they found that the assistance was not available, that they would be inclined to criticise and complain of the Indian Government?—I think I would start rather with the assumption that it is hardly conceivable that circumstances could arise that would make it inconvenient for the Government of India to lend a million. The money market in India is extremely narrow, and the difference of a million one way or the other would make a vast difference in a so-called stringency.

3941. At what rate would you propose that the Government of India should lend to the banks?—When the bank rate comes to 6 per cent., I should then consider the Government of India might come in and lend their balances at 6 per cent.

3942. At the actual bank rate?—Whenever the bank rate goes above 6 per cent., I would let the Government of India give it to the banks at 6 per cent., no matter what the bank rate may be above that. The banks must make something.

3943. Would you allow them to make the full difference between 6 per cent. and whatever was the bank rate at the time?—I would.

3944. Even if the bank rate had gone to 8 per cent.?—Quite so. I am not sure that, on full consideration, I would limit it to 6 per cent., but I think 6 per cent. would be a fair basis on which to start.

3945. In recent years I think the bank rate has only been for very brief periods above 6 per cent.; do you remember?—During this last cold weather the rate has been steadily high for a good many months.

3946. Has it been 7 per cent. and even 8 per cent.?—It has not gone up above 8.

3947. Is the rate a fairly universal rate over India, or does it vary very much, for instance, as between Calcutta and Bombay?—Madras is rather higher than Bombay and Calcutta; but Bombay and Calcutta jump together with fair regularity.

3948. Would you lend equally to each of the Presidency banks?—I would if they would give the same security.

3949. Without regard to the particular local rate of interest?—Without regard to that, except that anything over 6 per cent. would be a point at which I would authorise the Government of India to begin to lend from their balances.

3950. I take it that this proposal involves the assumption that at the busy time of the year the Government of India would have surplus money lying idle in its treasuries?—Broadly speaking, that is the case.

3951. Suppose that it came to the conclusion that it was safe to lend that money, then, under your proposal, it would lend it for about three months of the year, I presume?—I take it that if such a scheme were in operation, it would not be needed for more than about three months.

3952. What would the Government of India do with the money during the rest of the year?—What they do now.

3953. Leave it idle?—Yes.

3954. Suppose they once came to the conclusion that it was safe to lend it, might it not be worth their while to lend it for six months or 12 months?—If they could do so on terms that would suit them.

3955. They could afford to take a lower rate of interest if they could lend it for 12 months than if they could only lend it for three months?—I think one must consider that if the Government of India is run properly, it would not have these surplus balances all the year round.

3956. I rather gather that you think the balances in India as well as in London have been unnecessarily high in recent years?—I do not feel that very strongly.

3957. Have you any comments to make on the system of reserve treasuries?—No; I think it is a very judicious arrangement.

3958. It necessarily locks up a good deal of Indian money, does it not?—It does.

3959. Do you think that more is kept in these treasuries than is needed?—No, I do not.

3960. I go now to another subject, but a cognate one. What is your view as to the suggestion which has been made for a State or central bank? Do you think that is a scheme which should be promoted?—I do not think myself that there is room for a State bank. My attitude to the proposal is not one of hostility, but I see difficulties in the way of carrying it out. To begin with, India could not utilise the capital which would be provided by a large State bank; I see some 14 millions are spoken of—India has no use for that.

3961. Do you think that one central institution could meet the needs of the different localities, the different Presidencies, as effectively as the three existing institutions?—I do not think a central institution could by any possibility be as efficient in its working as the present Presidency banks are in their own localities.

3962. From what you have said in the *précis** you were good enough to send me, I gather that you think a State bank would necessarily imply so much official control as practically not to relieve the Indian Government of any of its present responsibility?—That is my view.

3963. Some people have thought that it would be a good thing if the management of the paper currency could be handed over to such a State bank; you do not share that view, I think?—I do not.

3964. Nor do you see any advantage in transferring the management of the exchange business to a central bank?—I do not. I think it is done very well now.

3965. Is it not a necessary result of the present system that separate reserves have to be kept for banking purposes, for currency purposes, and for exchange purposes, and that as long as they are separate reserves, more money must be locked up in them than would be the case if one institution had all the responsibilities and maintained a single reserve to meet them?—That is to a large extent true, but it

* Printed as Appendix XX., page 547.

might happen that the drain upon both reserves came at the same time. If the Government of India were instructed to make its balances, no matter in what box they are kept, available for purposes of trade at the time the money is wanted, it seems to me that would meet the whole case.

3966. In paragraph 6 of Appendix XX. (page 547) you say: "Each of the three Presidency banks has "evolved a practice adapted to its own environment, "and their absorption by a State bank would in a large "measure involve the sacrifice of the advantages to "trade which this specialisation secures." I may take that as your considered opinion, may I?—It is.

3967. I gather that you attach importance to that, because both the conditions of the money market and the conditions of business vary so greatly in different parts of India?—That is so; it is due to the seasons being different and the crops being different.

3968. So that you think it of great importance that there should be local management?—Yes.

3969. In order that the policy of the banks may be directed to meet the local requirement?—I think so.

3970. You have told me that you are opposed to the transfer of the management of the notes to a bank; but suppose that that were to be recommended, do you think that notes managed and issued by a bank would have the same free currency that they have at the present time?—I do not think they would. At the first outset, anyway, they would be looked upon with suspicion.

3971. They would not inspire the same confidence as notes directly backed by the Government of India?—I do not think so.

3972. Under those circumstances would you anticipate that there would be considerable restriction in their use?—I would expect a restriction in their circulation.

3973. In that part of the country with which you have been most familiar—I think it is the Punjab, you say—are notes now largely in use?—They are not so much used in the Punjab as they are in the United Provinces; at least, that is my experience.

3974. Does gold circulate to any considerable extent in the Punjab?—Gold does circulate in the Punjab, I think, more than it does in the United Provinces, because in the country districts now it is very rarely that payments in gold for produce are objected to. The cultivators will accept payment in gold when previously they would only take silver rupees.

3975. When they are paid in gold can you follow the gold at all and form any opinion of what becomes of it?—One instance has suggested to me quite lately that it probably is being used for the purposes of hoarding. In Cawnpore we have a village with nearly a thousand houses for workpeople, and just before I left India in March one of our workpeople reported that his house had been robbed. I saw him, and he explained the property that had been taken, and he said it included 12 sovereigns. That seemed to me to be at least symptomatic of what was going on.

3976. Are sovereigns used in payment of wages in Cawnpore?—My own practice, ever since the sovereign was made legal tender, has been to pay all wages in gold as far as it would go, that is, so long as we could get gold. For about three years we could not get gold—about 1907-8-9—but when we can get gold we invariably used it for paying wages.

3977. May I ask why you made that rule? Why did you prefer to use sovereigns instead of notes, for instance?—It was in accordance with my personal sentiment. They did not like it at first, but I wanted to educate them.

3978. You think it an advantage then that they should use gold as currency?—I think on the whole it is.

3979. Would you explain why?—It is more portable, it is easier hidden away, and after all it is the standard of value throughout the world.

3980. It is more portable and more easily hidden away than silver?—That is so.

3981. But it is not more portable or more easily hidden than notes?—No, but the people who use notes are hardly the people who would be using the sovereign.

3982. Why? Is it because the sovereign is too little, or too much?—The ordinary native—I am speaking now of the small man, the workman—does not handle notes much. It is metallic currency that he believes in.

3983. The general note circulation has very much increased, has it not?—It has.

3984. Do you think it might be further increased if the notes were entirely universalized, or do you think that the universalization of the higher denominations would have much effect?—If that were done it would simply mean that the Government of India would be financing all remittances, because remittances from one part of the country to another would be sent in currency notes, as that would cost nothing. If they were encashable at any treasury it would be the obvious form of remittance, just like a London cheque in this country.

3985. Therefore you would not recommend that course to the Indian Government?—I do not think that the Government of India should undertake the responsibilty.

3986. Have you considered the possibility of extending the currency by means of a more elastic note issue?—I have not considered it very closely, but it seems to me that there really is no difficulty in getting notes when one wants them.

3987. At the present time the amount of the fiduciary portion of the notes is fixed by statute, I think?—Yes.

3988. Do you think that the fiduciary portion is as large as it ought to be, or might it, under present circumstances, be safely increased?—I think it might be safely increased.

3989. To what limit would you go, approximately?—I think, on the whole, that a maximum ought to be fixed, and that maximum should not be worked up to except when there is some exceptional demand.

3990. One witness has suggested to us that instead of a fixed figure for the invested portion of the reserve there might be a maximum proportion, say 40 per cent., which, as you have just said, would not habitually be worked up to, but that the free balance of it should be made available for loans to trade, in times of stringency?—What has happened in the past is simply this—that as the note circulation has increased enactments have had to be passed in order to increase the fiduciary portion, and, if instead of leaving it like that a percentage were fixed, then it would be unnecessary to pass these regulations, and they would act automatically.

3991. I want to ask you a question now about the capital expenditure of the Indian Government; do you think they might raise more in rupee loans?—I think they might.

3992. Roughly, to what extent do you think they could borrow in India?—I would not like to put a figure to it, but judging by the result of the last two loans, when they got over 96 in India and 93 in London, it seems to me that it would be very unwise to borrow in London so long as India was willing to give 96.

3993. Would you always prefer to borrow in India when the terms in India were more favourable?—India's revenue is in rupees, and as far as possible I think the debt should be in rupees.

3994. That leads me to the next question I was going to put to you. Suppose that the conditions are slightly less favourable in India than in London, would you, for the reason you have just stated, pay a fractionally greater interest in India?—I think I should.

3995. I want to return for a moment to a question of the banks. Do you recommend any material changes in the conditions now prescribed to the Presidency banks?—In my précis I mentioned that I thought they should be allowed to lend upon any marketable security in India. That is the only alteration that I should propose.

3996. You would not propose to give them access to the London money market?—No. My reason for

proposing that they should be allowed to lend upon any marketable security is that that is what they do in fact now. One of the regulations is that there must be two names to the document, and one of these names might be that of the office chaprassi, for all the Bank of Bengal cares. They do not want the second name, they know one name is good enough, and it is almost a subterfuge to have the second name. Moveover, it would incidentally have the effect of giving those firms of money agents, who charge one per cent. for the use of their name under these circumstances, no excuse for doing it.

3997. As regards the sale of Council bills, I understand that, broadly speaking, you have no criticism to make on the present practice?—No. It has occurred to me sometimes that the sales might be held oftener than once a week. That is about the only difference I would mention.

3998. Intermediate bills are sold, I think?—Yes, they are.

3999. What would be the advantage of having the sales more frequently?—Sometimes people are rather anxious to know what the rate is going to be, and if they have got to wait a week for it, it keeps the strain up.

4000. You say in paragraph 13 of Appendix XX. that you would suggest "that all sales should be put "through at 1*s.* 4*d.* and all accounts kept on the basis "of 1*s.* 4*d.*"; what exactly do you mean by that?—When Council bills and telegraphic transfer are sold at anything over 1*s.* 4*d.*, I would put the difference to this reserve fund; and when the Council bills are sold at less than 1*s.* 4*d.* I would draw the difference from that fund.

4001. Would you create a special reserve fund to balance the exchange transaction?—Precisely; it would be a subsidiary reserve which would be first used.

4002. What would be the special object of that plan?—If a gold currency becomes really effective in India, it means that the profit from the coinage of silver would be reduced, because there would not be so many rupees wanted. Since my précis (Appendix XX., page 547) was sent in I have found that apparently the Government of India, or perhaps I should say the India Office, do, as a matter of fact, make their accounts at the rate of 1*s.* 4*d.*, and the difference is treated as a revenue receipt. For the year 1910–1 there was a profit of 70,000*l.* and for the next year it was 106,000*l.*; so if this plan of mine had been adopted there would have been, as the result of those two years' operations, a reserve of nearly 200,000*l.* in sovereigns if used now for exchange below 1*s.* 4*d.* I may say that it is a practice which I have followed ever since the exchange was fixed at 1*s.* 4*d.*, and my own fund was sufficient to meet the drain in 1907–8–9—it was not exhausted when the rupee came back to 1*s.* 4*d.*

4003. Having regard to the existence of the Gold Standard Reserve, would you not be rather duplicating the effort in the case of the Government of India?—Yes; but my object would be to have a fund which might be used in what might be called normal conditions. This special Gold Standard Reserve would come into play when there was a crisis.

4004. Perhaps it is hardly within the scope of our reference, but I think you are of opinion that the fixing of the rupee at 1*s.* 4*d.* has been beneficial to India?—I am.

4005. And in particular to Indian trade?—Yes.

4006. From what you have told me I gather that you yourself would desire to see a gold currency in India?—My attitude to that question is not so much that of an advocate of a gold currency on utilitarian grounds, but more for sentimental reasons, perhaps, and for considerations of prestige.

4007. Does that lead you to have any marked preference for the sovereign over a 10-rupee piece, say?—I have no hesitation in preferring the sovereign.

4008. Supposing that the object were, for any practical reasons, to get a large gold circulation, do you think that the sovereign would circulate more freely than the 10-rupee piece?—I do not really think it would, for the reason, amongst others, that the payment of wages so often falls between 10 and 15 rupees—it is 10 rupees and over, but not over 15 rupees. For trade payments, the advantages of it are rather less.

4009. Do you attach any considerable value to gold in circulation as a support to exchange in times of difficulty?—I do.

4010. On what is that opinion based?—On the broad ground that if the gold is there it will come out if it is wanted.

4011. Does experience support that opinion?—I think upon the whole it does.

4012. Take the crisis of 1907–8; very little gold came out then, I think?—That is true, except what came out of the Government treasuries.

4013. Roughly, I think my recollection of what we have had in evidence is that the Government treasuries paid out something like 4½ millions, and of that only about a quarter million was exported. And the rest does not appear to have been of much benefit to exchange at that moment?—That would be so. At the same time, if there had been a mint then it is conceivable that gold would have been brought for coinage.

4014. Would you be in favour, then, of the establishment of a mint?—I do not favour a mint because I think it would be a profitable thing to have, but because it is a luxury I think the Government of India could afford.

4015. You are not advocating it very warmly, then?—No, I am not.

4016. Your reason for advocating the gold mint is the same as your reason for advocating the gold coinage; it is a matter of prestige and sentiment?—Precisely.

4017. As regards the Gold Standard Reserve, have you anything to say about the place where it ought to be kept?—I think in the case of the Gold Standard Reserve the bulk of it ought to be kept in London.

4018. Would you keep any portion of it in India?—I do not think I would go beyond the silver portion of the Gold Standard Reserve.

4019. Let me ask first as to the total. To what limit do you think the Gold Standard Reserve ought to be brought?—I would be inclined not to stop until the total amounts to 30 millions.

4020. Of that 30 millions how much would you advise should be kept in actual gold?—I think Government should work up to 10 millions in London.

4021. Would you keep any gold in India as well?—No, not for the Gold Standard Reserve.

4022. Having put by your 10 millions in actual gold, would you be prepared to invest the remaining 20 millions?—I would.

4023. In what class of securities?—Roughly, exactly the classes of securities in which the present balance is held—chiefly Consols.

4024. Not in short-dated securities?—I do not think there would be any need to have it in short-dated bills then.

4025. Provided that you have got a large reserve in actual gold as your first line?—Yes.

4026. As regards the rupee portion of the gold reserve, that is, as regards the silver in the gold reserve, what have you to say? Do you think it ought to be there?—I do not think there is occasion for very much criticism on it, because the object of it is to have a supply of rupees in the event of the ordinary stocks running down. It is merely a convenience.

4027. You would, I think, agree that the primary object of the Gold Standard Reserve is to support exchange?—Precisely.

4028. But the object of these rupees, as you put it to me, is to support the currency notes?—That is quite so.

4029. Does that not rather point to the conclusion that these rupees ought to be in the currency reserve, and not in the Gold Standard Reserve?—How it strikes me is that it is merely making a convenience of the Gold Standard Reserve.

4030. And you do not mind its being made a convenience of?—No.

4031. I think that is exactly the way that some critics would express their criticism—that the Gold Standard Reserve, which ought to be expressly kept to maintain exchange, was being made a convenience of for other purposes, but you do not see any objection to that?—I do not, and, as I say, my approval of the five millions of rupees in India is merely because the fund exists, and it may as well be used for that purpose.

4032. But your approval is conditioned by only a small proportion of the reserve being so held?—That is so.

4033. Have you anything to say on what was done on one occasion—and I think has never been repeated—namely, the diverting of a portion of the profits which ought to have gone to the Gold Standard Reserve to railway construction in India?—I think it was quite wrong.

4034. You would allow nothing to interfere with the accumulation of the Gold Standard Reserve until it has reached the limits that you have expressed?—Nothing.

4035. Do you think the Government of India should undertake now definitely to give a sovereign for every 15 rupees whenever demanded?—No, I would not go so far as that. It might land them in consequences which one does not forsee just at this moment, but if they follow their existing practice of doing it, so long as it does not cause inconvenience, I think it will meet the case for some time to come.

4036. Would you think it an advantage if the conditions governing the Gold Standard Reserve could be more expressly determined and given statutory force?—That would, to a certain extent, be almost doing the same thing as undertaking to give a sovereign for 15 rupees, and I do not see that the Government of India would be quite justified in undertaking that unqualified responsibility.

4037. You do not think it would be quite safe for them to do it at the present time?—I should hesitate to do it.

4038. May I put my question in this way. Do you think that it is a thing which it would never be desirable for them to do, or do you merely think that they would be a little rash to do it under present conditions?—I do not know that I should put it quite as strongly as that, but I do feel that it would not be quite a safe thing to do under present conditions.

4039. Have you any observations to make as to the purchase of silver bullion for coinage?—I have suggested that instead of buying a large quantity at one time it would probably be cheaper in the end if it were announced at the beginning of each year that the Government intended to buy so much silver. As far as I can make out from the figures of the 10 years ending last year, the average annual demand was three millions sterling.

4040. Has there been a steady demand throughout the years, or has it varied very much from year to year?—It varies a good deal.

4041. If, therefore, the Government of India were to purchase regularly, they would in some years have a good deal more than they required?—Yes.

4042. And to that extent they would have locked up money uselessly for the time?—But they would probably be buying their silver cheaper than if they were cornered. Bombay would try to corner them.

4043. Do you think that in the long run what they lost in interest they would gain in the price of the silver?—I do think so.

4044. (*Lord Faber.*) I understood you to say in the course of your evidence just now that you are in favour of the Indian Government lending out these balances in India, if possible, on approved script?—I did say so.

4045. Do you think you could get the kind of script that the Government would require, for any amount of money there?—I think you would get sufficient script to cover such advances as the banks would wish to get.

4046. That is the difficulty which some of us feel, whether these securities are to be had in India? If the money is to be lent, are the securities to be had against it?—Take the Bank of Bengal which holds Government paper that rarely falls below a crore and a half; that means that they could easily raise one million sterling upon it, and a million sterling thrown into Calcutta would make a vast difference to the money market.

4047. I think probably they could manage a million. I was thinking of larger sums. I am perhaps being guided more by what happens in England. Would a million give you a good deal of relief in Calcutta?—A million sterling certainly would.

4048. I understood you to say that you would lend that at a fixed rate of 6 per cent. if the bank rate was as high as 6 per cent.?—I would.

4049. Would not an awkward position arise? Could you lend to certain specified borrowers at 6 per cent. when other people might easily have to pay 8 per cent.; would that not make a good deal of talk that certain buyers were being put at an advantage as against the rest of the community?—I do not think so. I do not see why the banks should be asked to work for nothing.

4050. What I have in my mind is, would it not be safer to lend the money at the market rate? A bank, when it gives what it calls the market rate, gives what it thinks it can make a profit on. Why fix the rate at 6 per cent.? Why not take the market rate, and if the bank will pay more, let it pay more?—Of course if you do, the banks will not make anything, and the banks must make money.

4051. The banks will always tender if they can get it at 6 per cent., because they would be able to lend it somewhere else at more than 6 per cent. A bank can take care of itself, as a rule, I think?—I think we are assuming that nobody else has money to lend except the Government of India.

4052. My point is, why should the Government of India lend even to a bank at 6 per cent., when possibly the bank, if the market rate were higher, would give a good deal more than 6 per cent.?—I see no objection.

4053. Then you would fix the rate at 6 per cent.?—No.

4054. I thought in your evidence you said you would make a fixed rate of 6 per cent.?—Perhaps I am misunderstanding you.

4055. Suppose the Government want to lend out money in India and the bank rate is 8 per cent.; do you propose to lend the banks that money at 6 per cent.?—Yes. I should begin, whenever the bank rate went up to 7 per cent., by lending the money at 6.

4056. Why lend the bank money at 6 when the market rate is practically at 8?—Because the banks must make something out of it. They do not work for nothing.

4057. Is it safe, do you think, to lend Government balances for 12 months? Is that not rather long for the Government of India?—I should never recommend anything of the kind.

4058. This seems to me an interesting question, which perhaps you will be able to answer: Do you think India is hoarding gold in the true sense? For instance, is it secreting bars; do the natives of India buy gold bars; are they hoarding gold in that sense?—That I cannot tell you; it is not within my knowledge.

4059. Or are the Indian people now in a position to keep in hand a certain amount of what we call at home pocket money?—They have more money than one suspects.

4060. You know that in England there is a very great deal of what we call gold used as pocket money—a great many millions?—Yes.

4061. I thought that that state of things might have arisen in India, as India is so prosperous. I think I understood you to say that you are in favour of raising the loan in India if it can be done, rather than in England, if the rate is nearly equal?—That is so.

4062. You are of opinion that it would be better for India to hold its debt at home, if it can?—I am.

4063. Do you think you could raise a big loan in India such as you sometimes, I think, raise in the London market—four or five millions at a time? Could you do that in India, do you think, or would you

exhaust the market?—I should not be prepared to say, but I think there may be ways of doing it.

4064. In 1907 and 1908, those two bad years in India, you say that little gold came in sight outside the treasuries; in other words, little gold was brought out by that bad time, and it did not appear?—The Government treasuries were emptied of gold.

4065. And they did not fill them up at all from the outside?—Apparently not.

4066. That was because there was little gold in circulation I suppose at that time?—That might have had something to do with it; it is conceivable that that might explain it in part.

4067. Since 1907-8 many millions have been imported into India?—The big import has been in the last three years.

4068. Now about the gold reserve; do you think 10 millions of what we have been told here to call metallic gold is enough?—I do, because in the crisis of 1907-8 it was only necessary for the Government of India to sell drafts on London for just over eight millions.

4069. If you have gold securities in the Gold Standard Reserve would it be possible, do you think, to sell those securities in a time of crisis and get gold for them? A gold security is a very good thing, but you would agree that it is not the same thing as gold?—No, it is not; but the assumption is that you have 10 millions of metallic gold to start with, and you are not obliged to begin selling on an extensive scale at once if you have got 10 millions to go upon before you begin to use the proceeds of your sales.

4070. Supposing that you have two bad years in India, two deficient monsoons together, then you might be in the position of having to sell your securities?—No. I think what would happen, even if you had two bad years in succession, would be that the imports into India would decrease tremendously, because the purchasing power would be so much reduced

4071. (*Sir Ernest Cable.*) In paragraph 9 of Appendix XX. (page 548) you refer to the possibility of the use of cheques being gradually increased throughout the country. Do you think, knowing the natives as you do, that that would be a very speedy process?—No; what I had in my mind more particularly was the European community using cheques more. The native does not, to any great extent, use cheques for large amounts.

4072. And it is not likely that he will?—I do not think so for a long time to come.

4073. He uses hundis, of course?—Yes.

4074. That is a very reliable form of document, is it not?—It is quite good.

4075. Are they discounted, or re-discounted, by the banks in Cawnpore? Are hundis dealt in?—It used to be the practice for the native marwari to advance money upon hundis to even European firms, and they went straightaway to the Bank of Bengal and discounted these hundis and pocketed the difference. They were able to borrow on better terms at the Bank of Bengal than the borrowers.

4076. The Bank of Bengal did discount them?—They did.

4077. A good deal has been said this morning about the capabilities of borrowing in India. It has been suggested that largely increased sums could be obtained at a slightly increased rate of interest; you agree with that, I understand?—I am afraid I do not quite follow.

4078. I think it was brought up by Lord Faber, and you said, I think, that large sums could be borrowed in India by the Government?—You mean by raising loans?

4079. Yes?—I am not in a position to say that large sums could be raised in India on Government loans. I only know that when the last loans were issued in India and London, in England the whole loan was placed at 93 and in India they got over 96.

4080. But such borrowings as those would not bring out the hoards that you have been talking about?—I do not think so, except you mean the hoards of the native states.

4081. Not the hoards in the pockets or the dhotis of the people?—Not the hoards of the small man.

4082. No means have suggested themselves to you for making those large hoards available for the commerce of the country?—I think the co-operative credit banks are working in that direction, because those banks are mutual, and the members are largely the cultivators who have no doubt small hoards.

4083. You mentioned 30 millions as what I may call your high water mark for the Gold Standard Reserve; but you mentioned that figure without any particular method of calculation, I suppose—it is just your feeling about it, is it not?—I do not know that I could give a mathematical reason for fixing 30 millions, but to my mind it looks to be quite sufficient.

4084. I was only going to put it to you that we might make a calculation on some logical basis of this sort—say, two years' requirements of the Secretary of State?—Roughly, I had that in mind. What is called the annual demand by the India Office comes to about 18 millions or 19 millions. You have the analogous case of Russia. Russia keeps abroad in gold roughly 18 to 24 months of her requirements to pay for what she has to pay in gold in other countries. To a certain extent the economic position of India corresponds to that of Russia.

4085. I gather from your remarks about the various reserves, the Paper Currency Reserve and the Gold Standard Reserve, that you would have no objection to throwing those reserves together?—No, I should not.

4086. You think it would make for simplicity of management, perhaps?—I do not know that I would make a strong point of advocating it, but I see no objection to it.

4087. (*Mr. Gladstone.*) Referring to the question of temporary loans in India, you have mentioned that the Bank of Bengal, for instance, hold about a crore and a half of Government rupee paper, but in addition to that they would probably hold, would they not, considerable amounts of Port stocks and of municipal bonds of the Presidency towns?—Quite so.

4088. And also of sterling Indian Government securities?—I do not know the details of their holdings.

4089. Therefore, probably the amount available would be very much larger?—Quite probably.

4090. It is probably within your knowledge that the Bank of Bengal would think nothing, for instance, of taking up the whole of the Rangoon Port Trust loan for 50 lakhs itself?—Quite so.

4091. If sterling Government of India securities were included that would also bring in, would it not, Government railway scrip; and there is no reason, if the Presidency banks hold India Sterling stock, why they should not also hold Indian Government Guaranteed Railway stock?—That is so.

4092. I think there has been a special enactment allowing the Presidency banks now to advance on scheduled Indian railways, whether they are on a rupee basis or not?—Yes.

4093. So that altogether the amount of securities available from the Presidency banks would be pretty considerable?—Certainly.

4094. I think Lord Faber referred to your suggestion of a fixed rate of 6 per cent., and as a sound economist rather suggested that it would not be very prudent for the Government to accept 6 per cent. when perhaps they might obtain 7 or 8 per cent. from others. We have had it in evidence already that the exchange banks do not care about holding those securities which would enable them to accept these loans, and that practically there is nobody else except the Presidency banks holding any sufficient amount of security; therefore the question reduces itself to one of lending to the Presidency banks?—I am aware of that.

4095. If it is reduced to one of lending to the Presidency banks, there does not seem quite the same objection to having a fixed rate of 6 per cent., as that might be most effectual in checking a rise in the bank rate, and that would be for the general advantage of the country?—I understand that the exchange banks would not be particularly anxious to take the

Government of India's money on these terms. They were quite content to leave it to the Presidency banks and get what they wanted from them.

4096. With regard to the placing of permanent loans—and you very aptly quoted 96 in India and 93 in London—it is the fact, is it not, that the investment by natives of India in high-class securities is extending very considerably?—That is not within my knowledge.

4097. You probably do know that a certain number of small railway schemes are now being financed in India?—Nominally, but I have heard it said that in actual fact they are financed in England and competing with borrowings by the Secretary of State.

4098. I am now talking of companies with rupee capital under the branch line terms?—I understand that.

4099. You would not be inclined to favour rather better terms being offered in India in order to encourage such investments locally, because you think that they are really taken up or backed in London?—If one could be quite certain that the money is being raised in India, I think it would be quite a good thing. The more you give the native of India an interest in his own country, the better.

4100. Could you tell me whether you are acquainted with the practical working of the small up-country treasuries?—No, I am not.

4101. You could not say if the balances are carefully watched and moved about to the greatest advantage?—No.

4102. Would you favour, so far as possible, the substitution of Presidency bank branches for the small treasuries, where that could be arranged, in order to effect economies, as a bank presumably by doing commercial business would be able to work more economically than a Government working simply its own treasury?—I should doubt that. I am inclined to believe that the Presidency banks now go where they think it will pay them.

4103. But whether it will pay them or not in these rather distant up-country places really depends upon the terms which they get from the Government, either as regards the minimum balance or the payment of certain charges?—Precisely. The balances in India that are held under the control of the Presidency banks away from the Presidency towns are liable to be taken up at any moment. They have no security on the balances they hold, and they cannot use them, because they may be taken up the next day.

4104. (*Chairman.*) I would like to ask one question in that connection; suppose that the Presidency banks opened more branches and the Government were thereby enabled to close some of their treasuries and transfer their balances to the banks, would the banks be able to work with smaller balances than those now kept in the treasuries?—I would not like to give an opinion offhand.

4105. (*Mr. Gladstone.*) Arising out of that question, perhaps I might suggest that they may be able to utilise these balances better than the Treasury?—If they have the same security which they have in Bombay, Calcutta, and Madras, that these balances will not be reduced below certain amounts.

4106. (*Mr. Keynes.*) Can you tell us in what class of transactions you find it possible in your business to use cheques?—Speaking of my own business, I use cheques in practically every case, no matter what the kind of payment, except for wages and salaries, which I always pay in cash.

4107. Are these cheques paid into someone else's banking account, or is it merely the way by which payees get money from your bank?—It so happens we pay largely by cheque, because we keep accounts both in Bombay and Calcutta as well as in Cawnpore, and a good many of our payments have to be made in Bombay and Calcutta, and naturally we then issue a cheque upon Bombay or Calcutta to save bank exchange.

4108. If you are buying produce from an Indian trader would you pay him by cheque?—Very rarely. He probably wants either currency notes or actual cash.

4109. Then these cheques which you mention are paid to English merchants?—That is so, largely.

4110. And except when you are making payments to other English merchants you would not use cheques much?—No; broadly speaking I should not.

4111. If you were paying some one in Calcutta and you had not got a banking account in Calcutta but were drawing on a bank which had not an office there, would your customer in Calcutta be satisfied by that means of payment?—I should not do it in that way. I should buy a draft from a bank in Cawnpore that has an agency in Calcutta.

4112. You suggested that there ought to be a certain relaxation of the conditions now prescribed for the Presidency banks; I have not quite understood what relaxation it was that you wanted?—The only relaxation I asked for is that, instead of the regulation by which they are only allowed to advance on a document with two names on it, you should allow them to advance money upon any marketable security, because when they advance upon some such document as a promissory note with two names on it, which simply means that it is for the benefit of one of the parties only—not for the other—the bank takes some form of collateral security which is really what they are lending on, and not upon the names at all.

4113. The banks can at present lend on security which is deposited with them, or the title to which is deposited with them?—It depends on the nature of the security.

4114. What is the kind on which they are not now allowed to lend, and on which you wish them to be allowed to lend?—Such things as shares.

4115. But they can lend on some forms of shares now. You wish them to be allowed to lend against any form of marketable security which does not represent immovable property?—That is so.

4116. You would not include immovable property?—No, I would not include immovable property.

4117. The important part of the relaxation is that they should be allowed to lend against shares and debentures of companies?—That is so.

4118. The bank rate in India commonly reaches 7 or 8 per cent. in the busy season; would you regard it as of great importance to the country that that high rate should be reduced?—I think it would be a very great convenience to trade if you could look forward to the rate not going beyond 7 per cent. at the worst.

4119. Do you think it a serious burden on trade that the bank rate should go so high?—I think it is a drawback. It is a drain upon the trade of the country. It is a levy.

4120. In the United Provinces and the Punjab you are within the sphere of influence of the Bengal Presidency Bank, are you not?—Yes.

4121. But the seasons, the crops and the methods of doing business are very different from those in, say, Eastern Bengal?—I cannot speak of what happens in Eastern Bengal, except that it is generally understood that there it is chiefly silver that is wanted in payment of crops.

4122. Do you find that the Bengal Presidency Bank is able to adapt itself to the methods of Northern India?—I think the Bank of Bengal in particular—and I can speak of it from some personal knowledge—has laid herself out, of recent years, to adapt itself to meet the needs of the country much more than it used to do.

4123. You have found no inconvenience in the Presidency Bank of Bengal having to direct operations over such a very large area of the country embracing such different conditions?—That is more for the bank manager to say.

4124. You, as a trader, have not found any inconvenience?—I have not observed any difficulty.

4125. You say in your précis that the Presidency banks and the exchange banks are prosperous concerns that have been tried in adversity and emerged triumphantly; is there now in India another class of banks of which that is not true?—I think there is. I think there are a large number of commercial banks that are a danger.

4126. The Presidency banks act as bankers' banks to a large extent both for the exchange banks and also for these mushroom banks?—They do, just as the

Bank of England acts as a bankers' bank here. As regards the prosperity of the Presidency banks it must not be forgotten that, although they are paying now a dividend, and a handsome dividend, upon their original capital, they are not paying very much upon the actual capital employed, because, roughly speaking, the reserve in hand at each of the banks is equal to the capital, so you should divide the return you get upon your capital by two.

4127. Do you feel perfectly certain that the Presidency banks are strong enough to relieve all probable difficulties in the next banking crisis, taking account of the fact that they will have to bear the burden not only of their own deposits, but also of the deposits of other banks in India?—I look forward to their doing that.

4128. You think they are in a strong enough position to do that?—I think they are equal to it.

4129. Would they be in a stronger position if their reserves were amalgamated, and if they were in direct connection with the Government?—Let me say this: When I give that answer I am assuming that the Government of India are prepared to let the Presidency banks have the advantage I have spoken of. I am not speaking of the Presidency banks now with their existing resources and entirely cut off from any recourse to the Government balances.

4130. You are assuming that in a crisis the Government would come to the rescue to some extent?—I think to the extent to which they can advance the money upon proper security.

4131. You do not think that a central bank which was an amalgamation of the Presidency banks, and which was in direct and habitual communication with the Government, would be in a stronger position to meet a general banking crisis in India than the three separate Presidency banks now are?—I do not know that it really would, because, after all, that bank would have no larger resources without the Government of India than the banks have now.

4132. You do not think that the banking reserves of the country would be strengthened if all the available resources were in one reserve rather than if they were in scattered reserves?—Except that in the eventuality of the drain being upon both kinds of reserve at the same time, it would make a larger sum available in a liquid form.

4133. The currency notes, I believe, are in the form of promissory notes of the Government of India?—Yes.

4134. The management of the note issue might be taken over by a central bank without the Government of India repudiating the ultimate responsibility of the notes, and without their form being altered?—That might be done.

4135. In that case would the confidence that they inspire be reduced?—There would not be the same reason for it if you keep the form of the note.

4136. So that you would advocate the form of the note, at any rate, not being changed, even though the management of the note issue was changed?—I do not quite see how you could maintain the form, and still make it an issue of a State bank; but assuming you can do so I do not see that there is any objection to it on that score.

4137. With regard to borrowing in India, would it be a good thing do you think to introduce some new form of security, such as railway securities with a guaranteed minimum interest and a share of the profits; would that be attractive to the Indian investing public?—I do not think it would make much difference.

4138. Then you think there would be no advantage in that over rupee paper?—I do not think it would be an inducement.

4139. With regard to the profits of the mint, in paragraph 18 of Appendix XX. (page 549) you say that the Indian mints, as now run, make a profit of over 100,000*l.*, even when they are slack and coining no new rupees, from the purchases of silver?—Quite so.

4140. Do you mean by that the profit on the coinage other than rupee coinage?—Other than rupees and half rupees—four annas, two annas, bronze and nickel coinage, and also a certain proportion of trade dollars.

4141. With regard to the purchase of silver let us suppose that your system of purchasing three millions a year or two millions a year had been in force over the last 10 years; after a long interval coinage began in 1901, and in that year two or three millions would not have been enough?—No; but when I speak of two or three millions I have reduced it to an average.

4142. I am now applying that to an actual case. In 1901 you would have to exceed your average?—Yes.

4143. You would have to pay for that by going below the average of 1902, 1903, and 1904?—You would be obliged to.

4144. In 1905 there was heavy coinage again, and, as you would have bought nothing in 1902, 1903, and 1904, in order to bring your average down, in 1905, 1906, and 1907 you would have had to buy very large sums?—You would have had some reserve to fall back upon to begin with. You would have been accumulating the portion of your annual buying that you had not used, if you were to buy, say, a minimum of two millions, and when the price is favourable there is no harm in going to three millions.

4145. If nearly all the coinage was in 1901, 1902, and 1903, or nearly all in 1901, you would find yourself in 1904 with a small reserve?—That is so.

4146. There was a heavy coinage in 1905, 1906, and 1907, in which years you would have had to have bought very much more than your average?—I take it that you would, if you had been below your average.

4147. On the actual facts as they were, you would have had to buy more than your average in those years?—Yes.

4148. Then in 1908, 1909, and 1910, in order to bring it down again to your average, you would have had to have bought no silver?—During those years the Government of India were holding off coining because they wanted to fight the Bombay corner, and they endeavoured to get as many people as possible to take sovereigns in payment of Council bills.

4149. This is quite a new fact to us. Is it one on which you have evidence, that the Government were deliberately refraining from coining?—I am taking it as a belief; I am not in a position to say it was a fact, but that was the public opinion.

4150. That the Government were forcing sovereigns on the people?—I am assured it is the case that they tried to do so.

4151. They had very large reserves of rupees in those years?—Then why did they want to coin?

4152. They did not want to coin?—The general belief is that they held off to the very last moment before they began to buy, and then they had to take steps to circumvent Bombay.

4153. You are speaking now of 1912, not of the period 1908–12?—I am.

4154. In the period 1908–12 they would have had to refrain from buying silver in order to bring down the average, which had been spoiled temporarily by the very large purchases in 1905, 1906, and 1907?—Yes. If I am asked to say whether I should recommend spasmodic purchases of silver or steady purchases, I should plump for steady purchases.

4155. I was trying to suggest that if you had the rule of steady purchases it would not have made the slightest difference?—In that event you would have been no worse off.

4156. I am putting this point, that if you had applied your method to the last 10 years, it would not have worked?—I will take your word for it.

4157. If you were to apply it to the next 10 years, you would base your average upon the demands in the last 10 years?—It looks to me very much as if my theory is correct, that the Government of India held off buying as long as they could, if the average annual demand is rather more than three millions, because you came to a point when they were at starvation.

4158. My own opinion is that an assertion that the Government were holding off was only true of a very few months, but I will not press you further on this question. The points I was trying to

bring to your notice were, first, that your plan would not have worked for the last 10 years, and, secondly, that for the next 10 years, 10 years being a long period in the currency habits of a country, it would be dangerous to buy, perhaps, years in advance on the basis of that rather remote experience?—Do I understand you to say that if the Government of India had begun 10 years ago buying silver at the rate of not less than two millions a year, the sum they would have had to pay for that silver would be at least as much as they had to pay when they bought eight millions straight off?

4159. I am saying that they could not have kept the programme of buying two millions a year, and that they would have had to have bought much more than two millions in some years, and therefore much less in others?—I take it that you have worked out the prices?

4160. I have worked out the figures of the annual demand for coinage?—And on the average monthly rates for silver during that period, it would have cost the Government of India as much as it did when they had to buy a large quantity?

4161. My argument is simply based on the assumption that you could not buy in the years 1908, 1909, and 1910 silver which you wanted to coin in the years 1905, 1906, and 1907?—That is so, but I have not suggested that you would not buy more than two millions a year if you wanted it, but I would buy two millions in a year I did not want it and make up the balance when it evened itself out.

4162. (*Sir Shapurji Broacha.*) In former years, before 1911, the Secretary of State had smaller balances on this side; you said four millions?—Prior to 1909–10. As a matter of fact, the period of abnormal balances began with the year ending 31st March 1909.

4163. The four millions balance was not a large balance?—It is a very good sum.

4164. India has a debt of 500 millions to England, always?—500 millions of what?

4165. Pounds?—In what form? That is not the debt of India.

4166. Yes, that is the debt?—It is under 300 millions.

4167. No, 500 millions altogether, including the rupee paper and including the reserves?—It is 276,281,000*l.*

4168. You do not count the rupee debt and the whole railway debt?—That is counting all the debts.

4169. Never mind, we will not dispute about that. The Secretary of State has to provide the materials for the Indian public works?—Yes.

4170. Taking all these things into consideration, it is a very small balance to keep here in order to be prepared for all contingencies. India had a surplus revenue during the last four years of about 20 millions, I think?—Yes.

4171. Of that surplus revenue, the opium revenue and the railway revenue together make up a sum of 13½ millions, and the further surplus was 6½ millions. Do you think with a progressive country like India a surplus of 6½ millions in four years is excessive?—It depends altogether on what you want to do with your surplus, or what ground you can give for getting it. If getting this surplus means that you have levied high taxation, it is wrong.

4172. I am taking a progressive country like India. Russia, for instance, had a surplus during the last two years of something like eight or nine millions?—What do you mean by a surplus under those conditions?

4173. I mean that you make your budget for a certain amount and what exceeds that amount is a surplus?—Yes, according to the budget.

4174. Do you consider, having regard to all the contingencies of India, that a million and a half a year is an excessive surplus?—I do not know. I would rather not give an opinion as to whether it is excessive or otherwise.

4175. There have been complaints made about excessive surpluses and about taxation that ought to have been reduced at once?—There is no doubt that the income has been estimated with very great caution.

4176. Should not India's income be progressive because the country is advancing by leaps and bounds?—I think there is no doubt that the question of the amount levied by taxation would have been taken into consideration if it had not been that the time is coming when even more will be wanted. It is like getting the toad accustomed to the harrow.

4177. As I said, there was 13½ millions of windfalls from opium and railway excess; could they have used that surplus in India?—I think they made a very good use of it as they did, by paying off the debt.

4178. They were right to use it as they did?—I should think so.

4179. Do you know what the practice of other States is in keeping large funds in foreign countries?—I have mentioned what one might call the classic instance of Russia.

4180. Are we not to be bound by the example of other countries in estimating the Secretary of State's balances?—I am not sure that we are not bound by the Secretary of State's practice.

4181. In judging the Secretary of State, are we not to have those examples before us?—No. I would prefer to hold the Secretary of State's practice up as an example to them.

4182. We will not discuss that. Do you think the Secretary of State was right in using that surplus balance as he did?—I think he was quite right, seeing he had it.

4183. And the surplus balance would be no good in India?—As a matter of fact there was a surplus balance in India, too, but it did not do much good.

4184. India having a surplus, that surplus was no good in India?—None whatever.

4185. If they do not use it at once, I think they must wait until it is allocated to certain uses and certain ways and means?—That is what I understand is the only way of dealing with it.

4186. Do you think money ought to be lent to the Presidency banks when money becomes dear?—I do.

4187. And you fix the rate at 6 per cent.?—I think 6 per cent. is a fair thing to start with.

4188. When the bank rate is raised to 6 per cent., do you not think the Government should commence lending money at 1 per cent. less, so as to give the Presidency bank some profit?—No, I do not think so.

4189. If the money is lying idle, what would you say of the Government?—There is a lot of money lying idle now. Income from your funds is not always the first consideration.

4190. Suppose the Government could spare seven or eight crores to trade, and lent that to the Presidency banks when the rate is 6 per cent., would there be any harm in their doing so?—It would be an innovation, and I would be disposed to wait until the rate went beyond 6 per cent. before I gave them anything.

4191. Is there any harm in lending six or seven crores?—I see no harm in it, but I think the occasion would not have arisen then.

4192. You have been in India for 29 years, I think you told us?—Yes, I said so.

4193. The money market in India has very much widened during the last 29 years, has it not?—It has become a different thing altogether.

4194. And you cannot base your lending on what you experieneed in 1874?—I daresay not.

4195. Money is dear from December to March?—Yes; it begins to get dear in November, usually.

4196. Is that owing to money going for revenue into the pockets of the Government of India, to a certain extent?—No. It is due, in the first place, to the need of money to pay for the jute crop of Bengal which is followed immediately by the demand for money to finance the rice crop in Burma. A great part of that does not come back to India.

4197. That is the trade demand, but independent of the trade demand the money goes for revenue payments to the Government of India?—Naturally; once the crops are harvested, the revenue payments begin.

4198. In every country the Government money is given for use by commerce?—I do not want to be tied down to that.

4199. I say that is the fact in every country?—To a limited extent, perhaps, but it wants qualification.

4200. In every country they make loans in order to finance the trade of the country, and they do not put the money in the Government vaults. In England, for instance, there are 18 millions at the Bank of England now?—How much of it is borrowed?

4201. (*Chairman*). Does not that 18 millions include funds in the Court of Chancery, and all other subsidiary funds?

4202. (*Sir Shapurji Broacha.*) It includes all the Government funds. If money for three months becomes dearer, it is due to the Government of India keeping that money in their hoards and not putting it out into use?—I would not hang them for that.

4203. And I would not hang them for it; I do not think they have bodies to be hanged. Do you think that the Government of India should lend from their surplus balances?—I do.

4204. And even if those surplus balances at that time happen to be at home, would you get them back?—No; I say subject to the convenience of the time.

4205. I think it is your experience now that money is much cheaper and more easily obtainable than it was 20 years ago, or 10 years ago?—It is cheaper than it used to be in India.

4206. Do you know how much money is raised in India for loans now every year? Is it not about three crores for the Government and about three or four crores for the municipalities, the Port Trusts and the Improvement Trusts?—Yes, that is the annual amount raised.

4207. Do you know that the 3½ per cent. sterling loan is 9 per cent. cheaper than the rupee loan—that it is under 87 now, whilst last year the rupee loan went at 96?—Or rather over.

4208. And it is expected to go to 96 this year?—That I will not say; I cannot tell.

4209. Do you know that there is a large amount of money coming out in the native states and in Upper India for local railway loans?—Yes; I believe Bombay has obtained a very large sum from the states.

4210. Do you know that a good deal of railway work is stopped by the dilatoriness of the Government of India, or of the Secretary of State, in giving those concessions?—I do not know that I should make that statement. I have no doubt whatever that the Government of India considered the matter very carefully, and to charge them with dilatoriness under the circumstances I think is not quite correct.

4211. So you are agreed in this, that the Government could lend safely six or seven crores to the Presidency banks during the busy season?—I would let them fix the amount; I would not fix it in advance beforehand.

4212. There is no danger of that if the funds are available. You would not commit yourself to the amount?—No.

4213. You are not in favour of a State bank?—No. I am not antagonistic to it, but I am not an advocate of it.

4214. Do you think it would be too large a concern?—I do not think it is needed, and I see obstacles.

4215. Do you see any difficulty in stating where it should be—Bombay, Calcutta, or Madras?—Yes.

4216. Do you think the Presidency banks are doing the work equally well?—I think the Presidency banks are doing very well indeed, and are very accommodating.

4217. There has been a fear expressed that if you lent in India six or seven crores on Government paper at a time of trade demand, the money would not be returned when wanted; apparently you do not believe that?—I do not think there would be any difficulty; I would not anticipate any difficulty.

4218. Even now money is very cheap in India?—Very cheap—2 per cent.

4219. Although the rate of the Bank of Bombay is 5 per cent. and the rate of the Bank of Bengal is 4 per cent., do you know that in Bombay money can be had at 2 per cent.?—Yes. You are very fortunate in Bombay.

4220. And do you know that there are no borrowers at present at 2 per cent.?—I could find a borrower.

4221. The money would certainly return in the monsoon after the busy season?—Yes.

4222. There is no fear of that money not returning when it is wanted?—I should think not.

4223. Do you know whether the exchange banks can borrow on rupee securities in England?—I have no doubt London takes care of itself.

4224. If they could borrow in India or England on securities, I think the Presidency banks would be equally safe and equally careful to see that they are not tied up when the money has to be returned?—Provided security is given, I would not mind.

4225. Why do you want more frequent sales of Council bills; they can always buy them everyday at $\frac{1}{32}$ higher than the rate fixed on the preceding Wednesday?—That I was not aware of. They might not want to give the $\frac{1}{32}$; they might be expecting it to be $\frac{1}{32}$ lower.

4226. You said you wanted to educate your people by giving them sovereigns?—I wanted to accustom them to the use of gold.

4227. Did they not use it before?—No.

4228. You know that before 1900 when the standard was established they used to have three or four millions imported every year?—That was used for ornaments; they were shield sovereigns, and were used for necklaces and things of that kind.

4229. How do you know they do not use sovereigns for ornaments now?—I take it they do. They are all used up.

4230. Do you think it is any benefit to force gold on people when 15 rupees can buy the same quantity of food?—Yes, because, after all, if you have a gold exchange standard the natural step afterwards is to have a gold currency, if you can do so economically The only alternative would be notes.

4231. A gold currency means that you would have to give gold when demanded?—It does not mean a gold standard.

4232. Let us understand the distinction. A gold currency means that you must give gold when demanded?—To make it effective that is the only way to do it.

4233. A gold currency means you have to give gold, or it is not a gold currency?—That is so.

4234. Suppose they had tried a gold currency, in 1908 when they stopped giving gold the gold currency would have been a failure?—That is so.

4235. Is it prudent to risk that failure in another year?—I have not asked them to do so; I have not recommended it.

4236. A good deal of silver bullion has been purchased, and some say Government has made the silver currency redundant, do you think they did?—I do not quite follow you.

4237. It is said that the coining of an excessive number of rupees in the past few years has made a great redundancy of currency, and prices have gone up, do you believe that?—I do not know that that is the reason why prices have gone up.

4238. Do you say that is not the reason?—I do not say that; I say I am not clear about it.

4239. Has a redundancy of rupees raised prices?—I do not know that there has been a redundancy of rupees.

4240. There is no redundancy of silver now, is there?—I do not know; I have not heard that there is.

4241. If they had not bought that seven millions of silver last year there would have been no rupees left, because the rupees went down to about 11 crores?—I understand that there was great need for rupees when they began coining last year.

4242. Your idea is that they should buy silver every year, is it?—I think they should average their purchases.

4243. But they have to buy more silver in the years when they want more rupees?—That is so.

4244. Would you like to refuse to give a man 15 rupees if he presents you a sovereign, and say No, we will pay you only in sovereigns, not in rupees?

—What they say now is: If you bring me a sovereign I will give you 15 rupees.

4245. When they pushed sovereigns in Cawnpore in the beginning of 1901, and also in Delhi and other places, the sovereign went to a discount, did it not?—I have known sovereigns at a discount of four annas.

4246. (*Chairman.*) When have you known that happen?—About the earlier years, 1899 or thereabouts. Then, when the people did not know the sovereign, they were very chary of accepting it, and if a man were paid a sovereign in his wages and he went into the bazaar he only got 14 rupees 12 annas for it.

4247. Has that ceased entirely now?—That does not happen now.

4248. (*Sir James Begbie.*) With regard to your remarks on the Presidency banks and the conditions under which they work, you say that you are not in favour of any material change in the conditions now prescribed for the Presidency banks?—Except in the one particular that I have quoted.

4249. Are you aware of any other banks without a note issue that work under similar restrictions?—No.

4250. When you say the banks, if given access to the London markets, will merely be competing with the exchange banks, do you mean that the object would be to do exchange business?—I assume they would do exchange business, and also take deposits.

4251. If the Presidency banks had authority to borrow in London against the securities they hold might it not be an advantage to India if that prevented the bank rate rising to a high level?—Yes, if it were to operate before the 6 per cent. rate was exceeded, under the terms of the advances from the Government balances, assuming that that is conceded.

4252. Do you know whether the Presidency banks require to remit money to England on behalf of their constituents?—Yes, they have to do that.

4253. Constantly?—Yes, that is quite a usual thing.

4254. Are you aware whether all the exchange banks are equally willing to supply the Presidency banks with drafts on London?—That I cannot tell you.

4255. Do you know whether the rates of exchange at which the exchange banks sell drafts on London to the Presidency banks are always the best rates of exchange?—I think they are usually as good as you can get from the exchange bank direct. That is my own experience. As a matter of fact I always set the one against the other, and as often as not I deal with the Presidency banks.

4256. I am talking about bills bought by the Presidency banks; you do not know about that of your own knowledge?—I do not know of bills; I am speaking of buying drafts on London.

4257. I am talking of drafts bought by the Presidency banks from the exchange banks. You do not know, do you, whether they always get the best rate of exchange?—If you buy a draft of the Presidency banks on London they would do it through one of the exchange banks.

4258. You do not know what rate of exchange is given?—No. I give the market rate.

4259. Do you prefer the Presidency banks?—If the Presidency banks give me as good a quotation for my draft as the exchange banks I would probably give the preference to the Presidency banks.

4260. Do you find that the Presidency Banks sell drafts on London?—They do.

4261. On their own account?—On their own account through their agent in London.

4262. Are you aware that the exchange banks compete with local business in India?—Yes, they do.

4263. There is no restriction in the number of exchange banks, and they may engage in any business in India?—There is no restriction that I know of.

4264. A new bank can be started any day?—Yes.

4265. I am afraid I did not quite understand what you meant when you said you would fix the rate at 6 per cent. for loans from the Government from the Gold Standard Reserve; why do you fix the rate at 6 per cent.?—Because I think it is fair.

4266. Would it not be fairer still if you made it lower?—I would not object to its being lower; it would suit me well enough. As I say, it is something in the nature of an innovation, and I would not begin too low. It might be found that you could go a little lower afterwards, but it is an experiment and I should prefer to start at six.

4267. Do you think that the trade of the country is usually financed without difficulty under existing conditions? Do the periodical high rates of interest not indicate some degree of difficulty?—I do not think so. I do not think myself that there is a great difficulty in financing the trade of the country at any time.

4268. Regarding the note issue of a State bank, do you not think that a bank, if given an interest in the profits of an extended note issue, would be in a better position to push the circulation than a Government department?—I am not sure that it would. What would you mean by pushing circulation?

4269. Increasing it?—By compelling a man to take notes if he wanted gold, or what?

4270. A bank can usually give some inducement, can it not?—What would it offer?

4271. If you make it worth while, it might offer a reduced rate of discount?—Would you give notes at a discount?

4272. No, I would give notes in payment of bills discounted?—If a man wanted rupees or gold, you would hardly force the notes on him.

4273. I am talking about giving an inducement; a bank could induce notes to go into circulation when it discounted a man's bills, could it not?—There is no doubt that the bank is in a position to promote the circulation of notes, under the circumstances, better than a Government treasury is.

4274. There is another point I was not very clear about. You said that the absorption of the three Presidency banks by a State bank would result in the sacrifice in a large measure of the advantages to trade which the present system secures. Why should there be any sacrifice at all?—Because the knowledge that a Bombay bank manager has acquired now would not be of very special use to him if he were transferred to Calcutta, say, or Madras. He has discovered the best way of handling his Bombay customer, which is probably a very different thing from the way he would handle a Bengalee.

4275. Would he not naturally be retained in Bombay for that purpose, where he was was most useful?—Very likely; but there you have got the experience of your board as well—your specialised board who know all about the conditions.

4276. On the subject of Council bills, you do not see that it would be an advantage to transfer the business of exchange to a State bank?—No, I do not.

4277. Must you assume that the State bank would do exchange business necessarily?—Not necessarily, but that, I understand, is one of the objects of the proposal—that they should handle exchange, and manage it.

4278. As a matter of fact, we have not had any proposal before us yet. In the way of exchange how would the State bank do exchange business? Would it be confined only to the business of Government in remitting the home charges?—I think it would be better to ask a banker that.

4279. With regard to the home market in India, you agreed with Sir Shapurji, I think, that the market is now much more open than formerly?—I am quite satisfied it is.

4280. In your experience do the mercantile community as a whole require to borrow freely in the busy season?—Yes.

4281. And in the off season the loans are paid off?—That is what the off season means.

4282. Could that money not be made available for Government loans? Why is it that that money is not put into Government loans now?—Which money do you refer to?

4283. I mean the money belonging to the mercantile community which they hold in the slack season?—I do not know whether that kind of people would

be disposed to lock up their money in Government loans. I take it that as a matter of fact the banks, for example, will buy Government paper during the slack season and sell it again when they want to realise in order to use their funds in a better way.

4284. Is it not your experience that the people are afraid of high rates of interest in the busy season causing a depreciation in the value of Government securities?—I think they are afraid of that; there is no doubt about it.

4285. Then if we can bring about a condition of affairs where we should do without these high rates of interest in the busy season, that would be an advantage not only to trade but to the Government in the way of loans?—Yes; whatever is an advantage for trade is necessarily an advantage to the Government.

4286. (*Mr. Gillan.*) Would you object to the headquarters of the central bank being located at Cawnpore?—No.

4287. Perhaps on grounds somewhat similar to those which induced the Government of India to take its capital and administration to Delhi?—I am not sure that I know the whole grounds on which they made that move; but for geographical reasons I should say that Cawnpore is plainly indicated.

4288. There is one point in the local currency of Cawnpore which I wish to ask you about. Mr. Toomey and Mr. Fraser of the exchange banks gave us some figures (*see* Appendix XVIII., pp. 541-2) showing the proportion of gold, of notes, and of silver, which circulate at various centres; those showed, I think, that the proportion of notes in the Cawnpore circle is very small even compared with a place like Lahore. Can you suggest any reason for that?—What is it that takes the place of notes in Cawnpore—gold, or silver?

4289. It is difficult to say; gold, chiefly, I suppose?—That seems to me to indicate that gold is becoming more the medium of exchange, as notes used to be.

4290. But why should that be the case in Cawnpore especially?—That I cannot tell you.

4291. In reply to Mr. Keynes, you said that the Government of India had put off coining rupees as long as possible?—I said it was believed they had.

4292. I understood you to say that in order to do so they had forced the sovereign into circulation?—I have been told so.

4293. Do you know what was alleged regarding the forcing of sovereigns into circulation? When did it happen?—The name of the firm was given to me, as a matter of fact, but I would rather not mention it, because they will probably be represented here later. A very large firm was said to have agreed to take sovereigns in payment, because they could utilise them just as well as rupees. It is a firm that is in the habit of buying Council bills and telegraphic transfers.

4294. There are just one or two points in your memorandum that I wish to ask you about, as they are not quite clear to me. You say in paragraph 11 of Appendix XX., p. 548, "It seems scarcely correct to "explain that any capital expenditure has been met "out of surplus revenue"?—That is so

4295. What did you mean by that?—When a man says that he has applied certain surpluses to capital expenditure, it is the same as though a man, who is making out a profit and loss account, were to say that he has debited capital expenditure to revenue when as a matter of fact that is not what takes place. When the India Office go through this operation, it is not quite so simple as it looks. My understanding is that it is quite true that they pay this actual money for capital expenditure, but coincidently they write off an equivalent amount of permanent unproductive debt and add the amount to what they call the reproductive debt; so that really the railway construction account is debited with its proper amount instead of its being paid out of revenue. It gives an impression that they are paying something out of revenue.

4296. Suppose you financed your railway programme partly by diminishing your balances, is that not coming out of revenue?—No, because if you do, you are adding to your reproductive debt.

4297. That may be the effect, but it is coming out of revenue, surely?—That is merely a question of words. In effect what happens is not that they pay anything out of revenue; they debit their railway construction account with the proper sum for capital, and do not reduce it by the amount paid out of revenue.

4298. Then you say in paragraph 24 of Appendix XX. (p. 549): "I do not approve the action taken "in 1907, when over 1,000,000*l.* was taken from the "reserve for railway development; I would even ask "that the sum be replaced." How would you do that?—If you tell me what account was debited and what credited, then I will tell you.

4299. Would you reduce the railway programme in order to do that?—No.

4300. Where could it come from?—If need be, you could have taken that 1,000,000*l.* back into the reserve by raising a loan and putting it into the reserve.

4301. Do you think our position, considering what we hold now in the Gold Standard Reserve and in the Paper Currency Reserve, is so risky as to make this step necessary?—I say that it is not a question of necessity but a question of equity. That sum belongs to the Gold Standard Reserve, and I do not even now know whether that was debited with the reduced capital expenditure of the railways, or whether some equivalent sum was paid off a floating debt, because in the India Office accounts all payments for railways, whether it is on revenue account or construction account are, as far as the India Office is concerned, debited to capital.

4302. That is in the *pro formâ* account?—In the Home Accounts you will find no entry whatever for railway stores, such as you will find for civil stores and military stores. It is all debited, as far as the India Office is concerned, to capital, and any allocation that takes place is done on the other side.

4303. Then you propose this, not because you think it is absolutely necessary, but on the broad ground that what was taken away from this fund ought to be given back to it?—That is all.

4304. (*Chairman.*) I think you said something, in answer to one member of the Commission, intimating that in your opinion some danger was arising in India now through the multiplication of banks with small resources; did I rightly understand you?—Yes, that is quite notorious. There are a large number of so-called banks that are only pawnshops.

4305. Has there been any movement in commercial circles in India with which you are acquainted, to ask for any action by the Government?—A movement has been made.

4306. What was the object of the movement? Did they ask for inquiry or for legislation?—They asked that some sort of restriction should be made upon the right of any organisation calling itself a bank.

The witness withdrew.

Mr. BHUPENDRA NATH MITRA, C.I.E., called and examined.

4307. (*Chairman.*) Will you please tell the Commission what your official experience in India has been?—I am at present holding the post of assistant secretary and budget officer in the Finance Department of the Goverment of India. I have been holding this post since 1910. From 1909 I have been employed as the officer of the Finance Department in charge of the Budget, and I have still got to do this budget work in the post of assistant secretary, and am employed in that work for about three months; for the rest of the year I have got to do the other work which devolves on the assistant secretary proper. Previous to 1909 I was employed in the Finance Department for about three years as

superintendent of the Budget Branch. Before that I was superintendent of the Budget and Resource Branch of the Comptroller-General's Office. I entered the Government service in the latter office in 1896, and the first four years of my service were passed in learning the work of the different branches of the office. In 1901 I was made superintendent of the Budget and Resource Branch of the office. I filled that post for about five years, of which about six months were passed on special duty, on work not connected with the Budget and Resource operations. Since 1906 I have been employed in the Finance Department as superintendent of the Budget Branch, then on special duty to work out the new budget procedure in connection with the enlarged councils, and lastly, as assistant secretary and budget officer.

4308. We have been told that the Government of India aim at having a normal balance of about 12½ millions on the 31st March; is that correct?—Yes.

4309. Can you explain what the need for a balance of that amount is?—The balance of 12½ millions sterling does not really represent the minimum balance with which it is possible to work the Indian treasuries. What happens in India is this: There is a period of low balances, and that usually happens about the beginning of December. After that we collect a large amount of land revenue, and the railway receipts and customs receipts are also very heavy towards the latter portion of the year. December is the period of low balances, and 12½ millions represents the balance which, in normal circumstances, the Government of India must have on the 31st March, so as to have a balance of 8 millions on the 1st December. Of that 8 millions, roughly about 4½ millions represent the minimum working balance which is required in the district treasuries; and about 1 million is the minimum balance required in the Presidency banks. It would be very inconvenient to work below the sum of 5½ millions.

4310. Do you mean 5½ or 4½?—5½. I think there are some papers of 1888, and 1898 also, in which Sir James Westland said it would be impossible for the Government of India to reduce the working balances in the district treasuries and Presidency banks below this sum of 5½ millions. The difference between the total minimum of 8 millions which I have just mentioned and this 5½ millions amounts to 2½ millions; and that 2½ millions represents partly a margin against possible risks and partly a reserve to meet famine and other unforeseen contingencies.

4311. When you speak of a reserve for those purposes, do you mean that it is a security against a failure of the revenue, or that it is provided in case expenditure should be raised?—The effect of famine arises in both directions. You may either have a partial failure of revenue, or you may have to meet direct famine expenditure, or you may have to issue large sums as advances to the cultivators. So that it is really a margin against a failure in revenue and also against increased expenditure. The ordinary margin against possible risks, which I have referred to, used to be taken roughly at 20 per cent. of the 5½ millions—that is, about one million. In 1901–4 there was some correspondence between the Government in India and the Secretary of State regarding the formation of a famine insurance fund. Lord Curzon's Government wanted to create such a fund by investing in non-famine years the half million which is appropriated every year from the revenues for the avoidance of debt; but the Secretary of State thought that it would not be quite proper to find the money in that way, and that the proper course would be for the Government of India to increase their treasury balances. As a result of this correspondence, the minimum balance was increased from 10 crores to 12 crores. Of the latter amount 5½ millions sterling represent the money which is necessary to work the district treasuries and to meet Government payments at the Presidency banks. These 5½ millions include about one million which is at that stage kept in the Presidency banks; and the distribution of the 5½ millions is therefore 4½ millions in the district treasuries and one million in the Presidency banks.

4312. You speak of a million being required at that date—that is, in the early part of December?—That is so.

4313. That is required to work the Presidency banks?—Yes.

4314. Will you explain what you mean by that?—These Presidency banks carry on the ordinary treasury business at the headquarters of Government in the three Presidency towns of Calcutta, Madras, and Bombay. Government has to meet certain payments at these three places, and the money must be there so as to be available to meet these payments. The remaining 4½ millions is distributed among district treasuries, and that being so, I think it will be admitted that it is not a very large sum.

4315. When were these balances last reviewed by the Indian Government?—The minimum balances are practically reviewed every year. The procedure is that every year the Accountant-General of each Province examines the estimates of the minimum balances of the district treasuries, and makes any reductions or other alterations that he thinks possible. Then he sends up his estimates to the Comptroller-General, and if the latter thinks that the Accountant-General has allowed too large a margin he asks the Accountant-General to re-examine the figures and to make any possible reductions. I can show the Commission the last review of the Comptroller-General. As a matter of fact, these minimum balances have been rising in recent years.

4316. Why have they been rising?—It is firstly due to the increase in the number of district treasuries. A second cause is the increase in the volume and magnitude of the transactions. A third is that we are guaranteeing a minimum balance at all the new branches of the Presidency banks where the Government is transferring its treasury business to them. Those are the three main causes.

4317. I gather from what you say that the Government of India have been encouraging the Presidency banks to take over the management of the balances wherever they can?—Yes, that is so.

4318. And to open new branches for the purpose?—Yes.

4319. Does the inducement which the Government of India offer for that purpose always consist of their undertaking to maintain a minimum balance with them?—It is the practice nowadays to do so. In the case of the old branches there is no such obligation, but in recent years, when the Government of India has asked a Presidency bank to open a new branch at a place where the bank thought it would be unremunerative to do so with reference only to the local banking business, it has guaranteed a minimum Government balance. I think, roughly, there are about a dozen places where the Bank of Bengal and the Bank of Bombay have either opened new branches or have taken over the management of the Government balances on these conditions.

4320. In such cases has the net result been that the Government has had to maintain a smaller balance or a bigger one?—I should say, from the Comptroller-General's reports on minimum balances, that it has got to maintain a higher balance.

4321. Where they close a treasury and induce a bank to undertake the work, they are obliged to give the bank a guarantee that they will keep a higher minimum balance than they found it necessary to do while their treasury was open?—That is so, because the Government Treasury business is conducted mostly on these lines: We do not keep the whole of the cash balance at any particular place in the local treasury itself, but we have an attached currency chest, and any surplus treasury balance is transferred to the currency chest, and then forms part of the paper currency reserve. Then when money is required at that particular treasury later on, we transfer the money from the currency chest into the treasury, and make an opposite payment at the headquarters of the province or at some other place. In that way, if Government transacts the Treasury business by itself at a particular place, it can often manage with a smaller balance than the minimum sums which have been guaranteed to the Presidency banks.

4322. If that is so, what is the inducement to the Government of India to close its treasuries?—Mainly because it is part of a policy to place larger amounts out of the Government balances at the disposal of trade in India.

4323. So that in your view the change has been costly to the Indian Government, but is worth doing in the interests of Indian trade?—I think so. Of course I could not definitely say that it has been costly, because against these increasing balances has to be set off the saving which the Government has made in its establishment charges, because as soon as the Government transfers the Treasury business at a particular place to the Presidency bank it can dispense with some portion of the old Treasury establishment, and it has not got to pay to the Presidency bank any sum to cover the establishment charges which the bank will have to incur. At the same time the effect of the arrangement, according to the Comptroller-General's reports, has in several cases been to raise the balances.

4324. Will you give me an example?—An increase of five lakhs in Bombay is attributed to the guarantee of minimum balances at the branches of the Bank of Bombay opened at Sholapur and Jalgaon.

4325. Is the increase in that particular case an increase of the Government balance at the headquarters of the bank?—No, at the branch banks. It is an increase in the minimum balance at the district treasuries. These minimum balances have gone up from something less than four millions to about 4½ millions in the last five or six years.

4326. In recent years I suppose the facilities of communication in India have very much increased?—Yes.

4327. Does it not strike you as, at first sight, rather surprising that, whilst the facilities of communication are increasing, the size of the balances should also be increasing? Would you not *primâ facie* have supposed that, with the increases in the facilities of communication it would have been possible to reduce the balances?—Of course, it is partly owing to the increase in communications that the balances have not increased to quite the same extent as it would have been otherwise necessary to increase them. The transactions of the Government have increased very largely. The number of treasuries has also gone on increasing and we have gradually acquired more territory—Burma and Berar, for instance. In spite of all that, the improvement in communications has enabled the Government of India not to increase its minimum balances beyond the figure which was practically fixed some time in the 80's.

4328. So that, though there is some increase in the total of the balances, they are smaller in proportion to the volume of business than they were several years ago?—Quite so.

4329. Just now you spoke, in cases where there were these treasuries, of the money being used or transferred to the currency reserve; what exactly is done with it when it gets there—what is the effect of the transfer?—The effect of that transfer is that we can reduce the balance of the district treasury and we can transfer the surplus balance to the headquarters, either of the Accountant-General or of the Comptroller-General.

4330. You put it into the currency reserve, and then you can transfer it to the headquarters of either of those officers—is that it?—What happens exactly is this: We open a currency chest, say, at Agra, and we put the surplus treasury balance there into the currency chest, but the total of the currency reserve is of course unaffected by this transfer, because we make a *per contra* transfer of an equal amount at, say, either Cawnpore, which is the headquarters of that particular currency circle, or at Calcutta, where the headquarters of the Comptroller-General used to be until a very recent date, and where the main currency office still is. In the latter case, the treasury balances at Calcutta are increased and the treasury balances at Agra are reduced; on the other hand, the balance in the currency chest at Agra is increased while the currency balance at Calcutta is reduced.

4331. When you want the money back into the Treasury at Agra, can you without difficulty reverse the transaction?—Yes; that is exactly what we do.

4332. The net result being that you, by the use of the currency reserve, free money where it is wanted from the reserve, and replace money in the reserve at the place where you have a surplus?—That is exactly so; in fact, the Government of India is saved the cost and trouble of actually moving this surplus money from one station where it is not wanted to another station where there is need for it.

4333. In spite of these facilities, which must be very considerable, the Government of India does not think that it can safely reduce the Treasury balance below the figure at which it now stands?—That is exactly the position. In fact, these facilities existed in 1888, and even long before. Sir James Westland, in a paper which I believe has been handed in by the India Office,* said it was possible for the Government of India to work these district treasuries with the small sum of 4½ millions, owing to the existence of this device of putting surplus money into the currency chest and transferring it through that channel to the headquarter treasuries.

4334. I gather, therefore, that the mere multiplication of branches of the Presidency banks would not enable you to work with any smaller balance?—Not a multiplication on the present lines; that is, if Government has got to guarantee a minimum balance when it transfers the Treasury business to newly-opened branches of the Presidency banks, I am afraid it will not be possible to reduce the minimum balances.

4335. When a guarantee of that kind is given, it is given for a fixed period?—Yes, it is usually given for a fixed period in the first instance.

4336. It would then be renewed at intervals, would it?—That is so.

4337. What is the explanation of the fact—I think it is a fact—that the balance in India on the 31st March this year was over 19 millions?—The main reason was that the Secretary of State was unable to withdraw the surplus accumulation to England by selling Council bills at what he considered to be a reasonable rate. Of course, it was helped by the fact that the Secretary of State paid for the large silver purchases which were made in England in 1912–3 out of his Home Treasury balances and not from the money which he had in his currency chest.

4338. The size of the balance was partly due to the use of the English balances for the purchase of silver, and partly to the Secretary of State's selling fewer Council bills?—That is so.

4339. How far does the Government of India control the amount of Council bills sold?—The procedure is something like this: The Government about the 9th of every month knows what its cash balances on the last day of the previous month were; then it calculates what portion of the balances is really wanted to meet the current requirements of India. The surplus so arrived at it places absolutely at the disposal of the Secretary of State, and the Secretary of State is quite free to draw the whole or any portion of it he likes to England by means of Council bills.

4340. So that the Government of India indicates to the Secretary of State a maximum, but the Secretary of State acts entirely on his own initiative as to what amount he sells within the maximum?—That is exactly so.

4341. Would it be possible for the Government of India to make loans from the Government balances to the Presidency banks?—That is a big question. It has been held in the past that such loans are not in the interest either of the Government or of trade. It results on one hand in an undue dependence of trade on Government money, and it may also result in Government locking up money, in the shape of loans to the Presidency banks, for which there may be a sudden and unforeseen demand. It has also been held that if Government lends money to the Presidency banks, the result will be that for the time being the demand for Council bills for trade remittances to India

* *See* Appendix II., pp. 42-7 and p. 55.

will fall off, and that will affect the rate at which the Secretary of State sells his Council bills. Not only that, but it is just possible that it may also affect the total amount the Secretary of State may be able to obtain in a year by selling bills and transfers. Of course, if the Secretary of State cannot sell as much as he requires to finance the Home Treasury, the result will be some inconvenience both to him and to the Government of India in the long run.

4342. In recent years he has been able to sell more than sufficient, I think?—That is so. Of course it is possible that circumstances may have somewhat changed in recent years, and that there may not be now the same objection to lending money to the Presidency banks as there may have been in the past. I think possibly that the objection that these loans may interfere with the ability of the Secretary of State to sell the full amount of Council bills, which he requires to finance the Home Treasury, is probably not quite correct under present conditions, because I think the exchange banks in India must get as much money by means of Council bills or imports of gold as would be required to meet the balance of trade; and the result of the Government making temporary loans from its balances to the Presidency banks would be at most to transfer the demand for Council bills from the busy season to the slack season; it will mean a falling-off in the demand in the busy season and a larger demand in the slack season.

4343. If it had that result would you regard it as advantageous to the Secretary of State?—It would not be quite advantageous, because the average rate at which the Secretary of State can sell the bills and transfers will be somewhat reduced. In the busy season, if the banks wanted the money in India quickly and readily owing to a stringency in the local markets, they probably would take a large amount of telegraphic transfers at a high rate; whereas if they got a temporary loan at that particular stage and had to repay it by remitting funds later on in the year, then they will probably take only bills and not transfers. The effect, therefore, would be a reduction in the average rate at which the Secretary of State can sell bills and transfers on India. On the other hand, it is possible that this loss will be largely counterbalanced by the profit which the Government of India would make from the interest on the loans which it issued to the Presidency banks; so that it is an experiment that seems worth trying at any rate, inasmuch as, on the whole, there might not be any ultimate loss to Indian revenues.

4344. You see no practical objection on the part of the Indian Government to these loans?—No. It may result in the Government of India having to retain a larger proportion of the surplus balances in India than it now does; but I do not think that that would result in any real inconvenience.

4345. You are not afraid that if Council bills were not sold in the time of pressure, the Secretary of State would be unable to sell enough in the slack months to meet his requirements?—Personally, I do not share the apprehension, because I think the balance of trade must be settled somehow or other, and that the import of money, either by means of Council bills or by means of gold must satisfy the balance of trade taken over a series of years.

4346. Assuming that such loans were to be sanctioned, for what months of the year would they be required?—When the Committee of the Bengal Chamber of Commerce approached the Government of India on the subject on the last occasion, which was in 1899, they said they wanted the loans between January and April.

4347. Would you lend to anybody besides the Presidency banks, assuming that such loans were to be recommended and sanctioned?—I think for the present I would confine the experiment to lending to the Presidency banks, because, after all, the Presidency banks stand more or less in the position of Government banks, and it is only proper that Government should deal with, or through, them.

4348. I presume you would take securities from them for the amount of the loan?—Yes, I would. I may mention that there is an arrangement under which we can lend money to the Presidency banks at times of stringency at the bank's discount rate. As a matter of fact, we have made such loans on several occasions in the past, but there has been no demand on us for such loans in the last five or six years, and it is possible that there is really no necessity for such loans nowadays.

4349. On the other hand, I think it has been suggested to us that the fact that the Government of India have only made those loans at the bank rate, deprives the banks of all inducement to take advantage of the offer, because the banks could only lend money at the same rate at which they borrowed it, and would get no reward for their trouble, and therefore they did not like to apply to the Government for the money. Do you think there is force in that?—Yes, of course there would be some force in it. If the bank did not get any reward for the trouble they took in the lending of the money, it would act as a deterrent from its taking such loans.

4350. At what rate do you think the Government of India should lend, if it lent at all? Should it lend at something below the bank rate?—There is no use in lending at the bank rate if no one will take the money at the bank rate; so that if the Government of India really wants to give larger assistance to trade, and trade requires the assistance, I think it would be desirable to lend it at some fraction below the bank rate, so as to leave the bank, which does the business, some margin of profit.

4351. What sort of security ought the Government of India to require, do you think—its own paper?—I think that is what it actually requires as a matter of practice; and to start with, I do not think we should go the length of taking other securities.

4352. Not even the best independent securities, Port Trusts, for instance?—Of course we might make an exception in the case of Port Trust securities, because they are in fact as good as the securities of the Government of India.

4353. Supposing the Government of India had decided to make such loans, and had been able to do so for three or four years, then let us suppose that from one circumstance or another their balances had shrunk, and in the fifth year they were unable te give the accommodation; I think you have already said that one of the reasons which had deterred the Government from doing it in the past was the fear that that would have a rather disastrous effect upon trade?—That is so.

4354. Do you think that view is shared by the Indian commercial community? I ask you the question because I think the witnesses who have come before us have said they did not think there would be much difficulty arising from that cause?—I think, in the past, members of the commercial community in India have themselves admitted this difficulty; and possibly to meet that argument the better plan may be not to lend out money from the Treasury balances, but to have some sort of elastic paper currency.

4355. I think we will come back to that later?—After all, it is not really the function of Government to lend money for the benefit of trade in India.

4356. As I understand it, the criticism directed against the Government of India is that as a tax-collector it bottles up a great deal of money just at the time of the year when the stringency in the money market is greatest; that it does not immediately require that money for its own use; and that it would be of great assistance to the money market to have that balance freed at that time?—The stringency in the money market could be easily met also by an elastic paper currency, and of the two alternatives an elastic paper currency would be a better solution of the difficulty than lending money from the Government balances.

4357. If assistance is to be given by the Government to trade, would you prefer that that assistance should be in the form of some rearrangement of the management of the Paper Currency Reserve rather than in the form of loans from the Treasury balances?—Yes.

4358. At the same time, I gather from what you said earlier, the Government of India has been actuated by this desire to serve trade in closing the treasuries and handing over the balances to the banks?—Quite so; in fact the Government of India tries to do all that it can be reasonably expected to do; and as a matter of fact I believe it leaves larger balances nowadays even at the head offices of the Presidency banks than it used to do.

4359. It does not therefore seek to keep its balances at the head offices down to the fixed minimum?—No, it never does so.

4360. Does it keep as little as it can in the reserve treasuries, and put as much as it can in the banks?—No, it cannot be said that it does that either. The arrangement is that it allows its balance at a Presidency bank to mount up to a certain figure, and if it exceeds that figure, which is about a crore in the case of the Bank of Bengal and a smaller amount in the case of the other banks, then it transfers the surplus from the bank to the reserve treasury; but then on occasion it would even allow its balance in the Presidency banks to go above that limit.

4361. When it leaves the money with the bank it receives no interest, does it?—No, nothing.

4362. But the money is available through the bank, or a portion of it, for trade purposes?—Quite so.

4363. When it transfers it to the Treasury, of course the Government of India equally earns nothing upon it?—Quite so.

4364. But it is not available for the purposes of trade?—That is so.

4365. Would you give me briefly the reasons for the establishment of the reserve treasuries?—I think the reason was that there was some trouble which arose in 1874 and 11 years previously owing to the Government keeping all its surplus balances at the head offices of the Presidency banks. In 1863 Government could not get from the Bank of Bengal the money which it wanted to meet certain necessary and emergent payments, and the same thing occurred in connection with the Bank of Bombay in 1874. In the latter case Government wanted only about 35 lakhs, to meet emergent expenditure in connection with operations undertaken to relieve distress expected from scarcity in Bengal. The demand evoked a protest from the bank that the withdrawal would probably result in a panic and dislocation of business in the money market. The last-named incident was what actually led the Government of India to introduce the system of reserve treasuries.

4366. Do you think the danger of such a state of things recurring is great at the present time?—I cannot say that the danger has passed away. In 1898, when the banks approached the Government of India on the subject of the use of Government balances in aid of banking resources in India, the bank rate had gone up to something like 12 per cent., and possibly, but for the institution of the reserve treasuries, the state of affairs which took place in 1874 might have repeated itself in 1898.

4367. On the other hand, would it be fair to assume that, if the Government had lent more money to the banks, the bank rate never would have gone to 12 per cent?—It is very probable that that result would have been obtained; but *per contra* it might have been that if there were no reserve treasuries, the banks would have used Government money to carry on the ordinary business of trade, which ought to be financed by them from their own capital, and that they would have found it very difficult to surrender the money if and when it was required by Government. I may mention that 1898 was a period of great stringency with the Government of India also so far as the balances went, and if the Government of India, having lent its surplus balances to the Presidency banks, had wanted to withdraw them, we would probably have had a repetition of the experience of 1874.

4368. Therefore, to obtain perfect security you think it is essential that the system of the reserve treasuries should be maintained?—I think so.

4369. I suppose it is the case that some inconvenience is involved to the Indian money market in consequence of the establishment of that system?—It is so. Possibly it results in the bank rate rising rather high in the busy season, because so much money is withdrawn from the market; but it is not the business of Government to provide money for the purpose of trade, and it ought only to place so much at the disposal of trade as it conveniently can. If the placing of all its balances at the disposal of trade results in inconvenience to it, I think it would be perfectly justified in having a separate reserve and not making any portion of that money available for trade purposes.

4370. I think everyone would agree with you in that statement. The criticism, as I say, is not that the Government neglects its business because it does not help trade, but that the Government, by withdrawing more money than is needed for its own particular requirements at a busy portion of the year, actively hinders trade. I rather gather that you say that may be so to some extent, but it is done as little as is possible?—That is so.

4371. And that to go further might endanger security?—Yes.

4372. Suppose the Government of India were willing to lend money, what amount do you think in a normal busy season would the market take up?—I think one of the members of the deputation from the Committee of the Bengal Chamber of Commerce which waited on the Government of India in 1898 said that the amount needed to relieve stringency in the money market would not be large and would be about one million. That, of course, is a question to which different people would give different answers; but if we are to judge in any way from the demand which is made for telegraphic transfers in December or January, the amount may be a pretty large figure. Another of the members stated that the demand for such assistance would be reduced when India had a stable exchange; and if that was correct, then the demand at the present day ought to be less than even one million.

4373. I think it follows, from what you have said, that you are clearly of opinion that it would be impossible simply to abolish all the reserve treasuries and transfer all the Government balances to the Presidency banks?—Yes, that is my opinion.

4374. You have, I think, already told me that you would not recommend under any circumstances, in the first instance, loans to anybody except the Presidency banks?—Quite so.

4375. In these circumstances, is it a fair inference from what you have said, that you do not think the Government of India could have used to advantage in India any part of the balances recently held in London?—Yes. If the trade could not have taken more than a million, of course it follows that the Government of India could not have used advantageously any considerable portion of the surplus balances in India.

4376. You have already spoken of the possible effect of the sale of Council bills on any such loans made in India; the fear of adversely affecting the sale of Council bills has, I think, been one of the principal reasons for not doing it, has it not?—Quite so.

4377. But on the whole you are not very much impressed with the danger?—That is the position.

4378. In regard to the balances in England, they also have been very large for the last few years, have they not?—Yes.

4379. That, I think, has been mainly due to the large surplus receipts from Council bills?—Quite so.

4380. And those have been due to the considerable surpluses which have accrued in each of these years above the budget estimates?—Partly that, and partly to the lapses in the grants that were made for the railway capital expenditure.

4381. Why has there been so much under-expenditure there?—I think it is due partly to some difficulty in obtaining stores from England, and partly to more time being taken than was anticipated in preparing and sanctioning proper plans and estimates, so that there was some delay in commencing the works.

4382. Has expenditure been affected at all by the difficulty of getting labour in India?—No; I do not think that has affected it to any degree. There may have been one or two cases, but I do not think they have materially affected the spending of the money.

4383. Generally speaking, could you carry out an even larger railway programme than that which has been provided for, without meeting with any labour troubles?—I am afraid I am not competent to answer that question, but this much I can say, that in 1912–3 the railways were able to spend practically the whole of the capital grant, which amounted to over 10 millions. That indicates that there were no labour troubles. I may also mention that a good portion of the money which is allotted for railway capital expenditure goes to meet the requirements of open lines, mainly, that is, to meet the cost of additional rolling stock, and here labour questions do not really come in.

4384. Unless they are English labour questions, or European ones?—That is so.

4385. I think the balances in London have been increased by borrowings on the part of the Secretary of State?—There have been some anticipatory borrowings.

4386. In those cases, does the Secretary of State act on the advice of the Indian Government?—No. What happens is this: The budget programme of borrowings is fixed some time about the end of the preceding year, and the Government of India and the Secretary of State settle between themselves what amount of loan will be raised in England and in India respectively; after that stage it is not usual for the Secretary of State to consult the Government about the amount of the sterling loan.

4387. In that case the consultation between the Secretary of State and the Government of India as to the amount of borrowing to be done takes place before the opening of the financial year?—Quite so.

4388. In the review which they make, do they look further ahead than the coming financial year, or do they confine themselves to one year?—As regards the definite programme of borrowings, they simply look forward to the coming year.

4389. And in agreement it is settled that so much will need to be borrowed in the course of that year?—Quite so.

4390. They arrive at that figure on the basis of the budget estimates, I suppose?—Yes, that is so.

4391. If in the course of the year revenue comes in more favourably than had been anticipated, is that fact communicated to the Secretary of State?—Yes. He gets the Comptroller-General's monthly statement of the treasury transactions in India, which shows exactly how the revenue is coming in.

4392. Does the Secretary of State, having fixed before the beginning of the year, after consultation with the Government of India, the amount which he has to borrow in London, again consult the Government of India before actually issuing a loan?—No, he does not.

4393. Might it not be the case that in a good year if he did so consult the Government of India they would be able to say that the revenue was coming in so well that the loan which they had contemplated as necessary before the year began was now proved to be unnecessary?—Quite so; particularly if there was any apprehension that the loan would not be obtainable at a favourable rate, I am quite sure that the Government of India would advise the Secretary of State of that.

4394. Do you think there might therefore be some advantage in more frequent communication between the Secretary of State and the Government of India before the Secretary of State actually issues any portion of the loans agreed upon?—I think so.

4395. (*Sir Robert Chalmers.*) Is it quite certain that these steps are not taken already?—The Secretary of State does not now consult the Government of India before actually floating a loan in the English money market.

4396. But there would be communications, I gather from a previous answer of yours, that would pass from the Government of India to the Secretary of State, not necessarily official utterances, but demi-or semi-official utterances, explaining the position, and the way the revenue was coming in, and so supplementing previous information that had gone forward?—That is so. The Secretary of State is now informed how the revenue is coming in; but there is no consultation between the Secretary of State and the Government of India as to whether a sterling loan should actually be raised or not just at the time when the Secretary of State issues the loan in the English market.

4397. As you say, the Government of India does supply supplementary information if and when it accrues in India?—Yes, it supplies information, but it never supplies any advice in the matter.

4398. (*Chairman.*) It is not merely the total amount of borrowing, as I understand, but the proportion of the borrowing in India and in London which is settled in anticipation at the beginning of the year?—The actual amounts are settled as part of the budget programme.

4399. Might it not sometimes happen that as the year went on, the Government of India would see the possibility of raising on favourable terms in India a larger proportion of their total needs than they had at first thought possible?—That contingency might arise. Under existing arrangements, the Government of India tries to raise in India as much as it is possible to get out of the market on reasonable terms.

4400. Latterly, the rupee loans in India have been very successful?—That is so.

4401. Do you think there is much possibility or probability of an extension of borrowing in India in the course of the next few years?—The expert opinion on that matter is that it will not be possible to borrow larger sums than what we actually take from the market without further reducing the market price of rupee paper.

4402. The last two rupee loans in India I think have been issued at a better price than the sterling loans in London?—Yes.

4403. But you do not think that the better prices would have been maintained if the Government had sought to raise a larger proportion in India?—I think that that is the opinion held by bankers in India. The people we usually consult before raising our loans have given us that advice.

4404. I think you said just now that it was the policy of the Indian Government to raise as much as they could in India on satisfactory terms?—Yes, that is so.

4405. The object being to restrict as far as possible the creation of new debt in England?—Yes, to restrict the growth of the sterling borrowings.

4406. These borrowings are, I think, entirely for productive capital expenditure?—They are mostly for that purpose. Of course, in recent years we are raising sums for the construction of Delhi.

4407. Putting the creation of the new capital at Delhi out of account, the money has been almost entirely raised for railways or irrigation works?—Quite so.

4408. Do you happen to know whether the Government of India have considered whether it would be advisable to try to encourage private enterprise to do more of this work, in order that so they might lessen their own capital responsibilities?—I am afraid I could not answer that question, as I have no definite knowledge on the point. My recollection is that they afford all reasonable facilities to encourage private enterprise. At the same time, the railways constitute a very valuable asset to the Government of India, and it is possible that when questions of handing over the State railways to private companies have arisen they have not favoured the idea.

4409. I understand it would not come within your official responsibility to advise upon that point?—No, it would not.

4410. Now I should like to ask you to tell me as briefly as you can, how you set to work in India to prepare an Indian Budget?—We prepare some sort of rough forecast in November just after the autumn monsoon has been fairly established. For this purpose we obtain from the Civil Account officers their estimates of the revenue and expenditure for the current

year. We also obtain from the accounts officers who maintain the accounts of the important Imperial departments, *e.g.*, railways, military services, posts and telegraphs, &c., their estimates of revenue and expenditure. We examine these various figures, and we settle what we consider to be the preliminary revised estimates for the current year. From those figures, after making due allowance for the normal growth of revenue as well as of expenditure, we prepare a rough forecast for the following year. This forecast gives us in normal years a certain amount of revenue surplus, and then we discuss to what purposes this surplus is to be devoted, whether we should reduce taxation, or whether we should spend it in meeting needs for the improvement of various branches of administration, *e.g.*, education, sanitation, and things of that sort, or whether it should be applied in both directions. Then we submit our proposals for dealing with the surplus to the Secretary of State, who passes orders on them. That constitutes the first stage of our budget work.

4411. At about what time of the year would these sketch proposals reach the Secretary of State?—Usually about the beginning of January. At the same time we prepare the programme of capital expenditure. We know from the rough forecast of the revenue account what portion of the revenue surplus we can allocate to capital expenditure. We also prepare a rough forecast of the amounts that we can borrow in India and in England—of course, the latter figure is settled in consultation with the Secretary of State. We then commence the next stage of our budget work. About the beginning of January we get the regular budget estimates from the provincial governments. There are in India nine provincial governments which have got certain financial powers. Of course, these powers are more or less restricted by rules which have been laid down by the Government of India and the Secretary of State, but the provincial governments have got some amount of freedom in spending the revenue which is placed at their disposal. They prepare their budget estimates, both of revenue and of the expenditure that they propose to incur from it. Nowadays they have to consult their legislative councils as regards the distribution of their surplus money, but in January it is not possible for them to do so. What they do is this: In sending up to the Government of India the first edition of their budget they put in a lump sum, so many lakhs, the distribution of which they will decide later on after consulting their respective councils. We get these budgets, and our main duty in connection with them is, firstly, to examine the estimates under certain heads of revenue. The revenue under some of the heads—land revenue, excise in some provinces, stamps, and income tax—is shared between the Government of India and the provincial governments, so that the Government of India has got an interest in the proper estimating of revenue under these heads. The Government of India is, moreover, ultimately responsible for seeing that the provincial governments keep their expenditure within the resources at their disposal. It must therefore check any tendency on the part of a provincial government to over-estimate its revenue so as to get a larger spending grant for the following year than it ought to. After the estimates of revenue have been checked, the Government of India simply prescribes the limit up to which the local government can incur expenditure in the following year. That finishes the examination of the provincial estimates in the first stage.

4412. Suppose that the expenditure by a particular provincial government sanctioned by the Government of India proves to be in excess of the revenue, how is the deficit met?—Each of the provincial governments is required to maintain what is called a minimum balance below which it can not ordinarily reduce its balance; so that if in any bad year the revenue falls short of the budget estimate and the expenditure cannot be reduced below the budget grant, the deficit is temporarily met by drawing on the provincial balance. As a matter of fact, the provincial government may for the time being have a larger balance than the minimum, and then it may not have to draw upon the minimum balance; but if it was working about the neighbourhood of its minimum balance, it may have to use temporarily a portion, or the whole, of its minimum balance, or even to take a loan from the Government of India. In that case, the Government of India would insist on the provincial government making up its minimum balance at the earliest possible opportunity.

4413. Are those balances of the provincial governments kept in the provincial government treasuries, or in the central government treasuries, or in banks?—There are no provincial government treasuries as distinguished from those of the Imperial Government. These provincial balances are more or less of the nature of credits, and the Government of India has the disposal of all the money. It manages the treasuries, but it keeps an account showing the amount which each provincial government has got to its credit.

4414. So that in considering what amount of money is at any time locked up in the Government balances, the Government balances about which you were speaking earlier are inclusive?—Quite so. At the moment there are about 10 crores of provincial balances included in the balances of the Government of India.

4415. Now, will you resume your account of the making of the budget?—When we have finished our examination of the first edition of the provincial budgets, we communicate to the provincial governments the figures of the budget estimates for revenue and expenditure as passed by us, and we tell them that they can distribute the total sum that we have allotted as their expenditure grant for the following year among the different heads of account in consultation with their councils. After we have finished with the estimates of the provincial governments, we examine the estimates of the wholly Imperial revenue and expenditure. The main items are, firstly, the military services. Of these a detailed estimate is prepared by our Military Finance Branch, in consultation with the Military Accountant-General and the Army authorities, viz., the Commander-in-Chief and his staff. At the end of December, we have already decided, in connection with the preliminary budget forecast, what sum of money we can allot to meet military expenditure in the following year. If we find that the total of the detailed budget exceeds that limit owing to some special causes, we may have to raise that allotment in January or February if we find it possible to do so. Secondly, there are the estimates of the smaller commercial departments, the Post Office and Telegraphs. The Post Office estimates do not generally give much trouble, because the expenditure is usually kept well within the revenue, and the work of the department generally results in a profit. In the case of the Telegraphs, the expenditure has in recent years been higher than the revenue, mainly owing to the need for the establishment of radio stations, and we have to go into these estimates carefully, and allot as much money as we conveniently can for the efficient maintenance of the service. Then comes the most important Imperial department, the Railway Department. There, it is very difficult to make any correct estimate, owing to the magnitude of the transactions and their liability to respond to the agricultural prospects and trade conditions of India. Still, we make the best estimate we can with reference to the advice of the administrative authorities. After we have settled the estimate of revenue, we decide how much money is to be allotted towards the working expenses of the railways. We have arrived at some sort of preliminary conclusion on that point also in December when preparing our budget forecast; but since then the detailed demands of the railway administration have come in, and we may have to alter our preliminary figures with reference to these demands and our ability to allot a larger sum towards the working expenses of the railways. Lastly, there are some other heads under which revenue and expenditure are wholly Imperial. One of these is opium. The estimate of opium revenue in recent years has presented great difficulty. The Government of India, as a matter of policy, decided that they would only budget for what they call the

surplus standard* of revenue in each year, and would postpone the consideration of the disposal of any accrued surplus from this source until later on in the year, in December and January. Other important Imperial heads are salt, customs, mint, and the charges of the central administration and of the survey of India and other similar scientific departments. These are also examined about the end of January. We also get, about the second week of January, the estimates of the India Office, which show the amount of revenue and expenditure, the amount of capital expenditure, the capital liabilities in connection with the discharge of debt which must be met in the following year, and other receipts and disbursements outside the revenue account. When these various estimates have been settled we compile, about the beginning of February, the total figures of Imperial revenue and expenditure and of provincial revenue and expenditure for the whole of India, and then we again examine the ways and means position. We know what the Imperial surplus will be, and we know whether the provincial governments will draw anything from the balances which they have got on deposit with the Government of India, or whether these balances are likely to be increased in the course of the ensuing year. We also know what amount we are going to spend on capital expenditure, on railways, irrigation works, &c., in the following year. Then, again, we have got another set of transactions called the deposit, advance, and remittance transactions. In India the practice is for the local boards, the Mofussil municipalities and other similar bodies to bank with the Government of India and to deposit their moneys at the Government treasuries, from which they draw such sums as may be required from time to time. It is also the practice of the Government of India to issue loans to cultivators in times of famine, and for land improvement and certain other purposes in normal years, as well as loans to municipalities and other public bodies in certain circumstances, and to the native States to meet administrative needs and famine requirements. Estimates for all these various items of outlay, and the receipts in connection therewith, have to be prepared by the Government of India in consultation with the Comptroller-General. When we have got together all the estimates of capital, deposit, advance, and remittance transactions, we know exactly what sum will be required to meet the capital liabilities of all sorts in the ensuing year. We then prepare, also in the first week of February, a compilation of the ways and means position. I may here mention that at the time when we are settling the budget estimates for the following year for the various items of revenue and expenditure, and of the receipts and disbursements outside the revenue account, we also settle the corresponding probable actuals for the current year, which are technically called the revised estimates, so as to arrive at the probable opening cash balance in the budget forecast of ways and means. In this connection we depend mainly on the advice of our account officers and of the Comptroller-General. One main point on which we ask the help of the latter is this: The important Imperial departments, viz., the railways and the military services, draw money from the treasuries by cheques to meet their expenditure, and they also pay the bulk of their receipts into these treasuries. So we can always as regards the current year check the total net military expenditure, as well as the net railway revenue and capital expenditure, from the Comptroller-General's estimates of the transactions of these departments with his treasuries. The second compilation, both of revenue and expenditure and of the ways and means position which I have referred to, is the first regular budget compilation, the previous compilation in December being only a forecast. If we find that this compilation indicates any material variation in the revenue surplus as compared with the forecast, we either curtail the budget programme already settled or devise means for spending the additional surplus. Then we go to the Secretary of State about the beginning of February with any alterations which we may consider necessary in our earlier proposals regarding both the revenue surplus and the ways and means programme.

4416. Is it then that the estimates are finally settled?—No, they are not final even then. About the first week of February we get the provincial estimates back from the provincial governments. They inform us of any important corrections which they think are necessary in the revenue heads; and if the result of these corrections in any province is a large deterioration in provincial revenues the local government must curtail its total expenditure grant accordingly. If, on the other hand, the corrections result in an improvement, it is open to the local government to ask for an addition to its expenditure grant for the following year. We go through these provincial estimates again, and finally settle the estimates of revenue as well as the provincial grants for expenditure. The same process is repeated as regards the Imperial items of revenue and expenditure. In some cases, particularly the railways, there have been very big variations at this stage from the earlier estimates. Then about the middle of February we finally make up our estimates. They are then presented to the Imperial Legislative Council in the form of the Financial Statement. That represents the financial proposals of the Government of India for the following year, but it is not the final budget.

4417. That, I take it, is only settled by the vote of the Imperial Legislative Council?—What happens is this: Any member of the Council can move a resolution asking the Government of India to make changes in taxation or to allot money to some definite object for which no provision has been made in the budget, or he may ask the Government of India to increase or reduce the provision under any particular head. Even if that resolution is carried, the Government of India is not bound to accept it—it may or it may not do so.

4418. (*Mr. Gillan.*) It takes the form of a recommendation to the Government of India, does it not?—That is it.

4419. (*Chairman.*) In the main, as I understand, the budget may be said to be settled in the month of February?—That is so, except as regards important variations. After the Council have discussed the Financial Statement and have had an opportunity of placing their recommendations in respect of it before the Government of India, the latter go through the estimates again, but at that stage they make only important alterations, *i.e.*, only such corrections as are likely to affect materially their calculations about the revenue surplus or about ways and means; and then about the end of March they finally present the estimates to the Council. At that stage the Council cannot make recommendations in respect of the estimates.

4420. At what point would the Government of India in conjunction with the Secretary of State have to make a decision as to whether they would propose an increase or a decrease of taxation?—That would be at each of these stages. The first proposal is submitted to the Secretary of State about the beginning of January.

4421. When would the final decision be taken?—The final decision would be taken about the middle of February.

4422. The official year begins in April?—On the 1st April.

4423. The accuracy, or the realisation of the budget forecast depends, I think you have said, mainly upon the condition of agriculture?—Upon the condition both of agriculture and of trade.

4424. Trade and the railways being themselves very largely dependent on the harvest?—That is so.

4425. All these estimates have to be made at a time of the year when the Government cannot possibly forecast whether the harvest would be a normal or an abnormal one?—Quite so; we cannot know anything about the position.

4426. I presume, therefore, that they budget for what you may call a normal harvest?—That is exactly so.

* *See* in this connection H.C. 155 of 1911, p. 4.

4427. Do you know whether the Government of India have ever considered whether they could not make their forecast with much more accuracy and more satisfaction to themselves if they altered the date of the financial year?—So far as I can recollect, the question has not been examined in recent times. I should think the main point was that they followed the practice in England, and having done so they have never given a serious thought to altering it.

4428. Of course there is always inconvenience at the moment of change in a matter of that kind; but setting that aside, and setting aside for the moment any objections that might be raised in England, do you think it would be an advantage to the Government of India to alter the date?—I must say I have not thought about it.

4429. Other things being equal, it would enable you to estimate with greater accuracy, would it not?—Yes, but even if we altered the date and made the year end on the 31st December, the result would be that in January we would not know exactly how the accounts of the preceding year stood. In any case we will certainly not be able to forecast the course of the ensuing monsoon much better than we do now. The only advantage will be this, that we will know more definitely than at present how we stood as regards the past year. I do not think the change of the financial year so as to make it terminate on 31st December will in any way help the Government of India in forecasting the course of the monsoon in the following year.

4430. I was wondering whether you could not postpone the beginning of the financial year to a date at which you would have some knowledge of the monsoon—suppose we take the end of October?—Such a change would probably enable us to frame a better estimate than we can now. We have got two monsoons, the autumn monsoon and the winter monsoon, and we would not be able wholly to meet the difficulty, but still, it would be better than the present position.

4431. The large balances of which I have spoken, which have accrued in recent years both in India and in London, I understand from you, and I think we have had it from another witness, include sums which are already allocated and which are placed at the disposal of the provincial governments?—Quite so.

4432. They are not what you may call free money within the control of the Government of India at the time when it shows them in their balances, and while therefore they are a credit to the Government of India there is a corresponding debit?—The actual money is in the hands of the Government of India, but it involves on them a liability to supply the provincial governments with any sums which the latter may require, out of the amounts standing to their credit, to meet provincial expenditure which has received proper sanction. A good portion of the Government of India's balance consists of similar items.

4433. Do you think it would tend to avoid misconception, if, in publishing the balances you eliminated those sums which had already been promised, though not actually spent, if, in fact, you carried them to a suspense account and showed them in a suspense account separate from the free balances of the Government of India?—They are actually shown in a suspense account, but when we state our cash balance we show the actual amount that is held in the treasuries. As it is, apart from this balance which has been promised to the provincial governments, there are considerable sums which really represent the balances of local boards and municipalities.

4434. I noted that you said that also. The general effect of that, as it seems to me, is to make the casual or careless observer think that the free balances of the Indian Government are very much higher than they really are?—The published cash balances are certainly not free balances. They represent the money which the Government of India holds in its treasuries. It may be that a portion of it represents savings banks deposits, while another portion of it represents the balances of provincial governments, and a third portion represents the balances of municipalities. It consists of the aggregate money which the Government of India has got under its control in its treasuries.

4435. It is the gross balance?—Yes.

4436. Some of our witnesses, I think—and I might even say for myself, as a member of the Commission, that I have been a little puzzled—have confused those gross balances of the Government of India with the net balance of the British Government at the Bank of England; they are clearly quite different things?—Quite so.

4437. Would it not be worth while in any statement in which those balances appear, at least to append some note to show what was a free balance, and what was already allocated to specific purposes?—That amounts to preparing a statement of assets and liabilities. In fact, Sir Edward Law once prepared it and published it in one of his financial statements. If it is of any use, it could be prepared without much trouble, but all the necessary information can be obtained from the Finance and Revenue Accounts if it is wanted.

4438. I want to go back for a moment now to the question of the rupee loans. In the first place, what is the total amount of rupee loans outstanding held in India and in London respectively?—I could give you the figure; it is published in an annual return of the Indian Commercial Intelligence Department: I quote the following passage, "Of the rupee debt it is "estimated that, including Rs. 137·5 millions held in "London, Rs. 728·6 millions were held by Europeans at "the end of 1910, and Rs. 652·4 millions by Indians, "the holdings by Indians being 47 per cent. of the "whole debt. It should be noted, however, that the "invested currency reserve is included in the sum "held by Europeans."*

4439. Have you any later figures than those?—No, I have not. They indicate that 73 crores were held by Europeans at the end of 1910, and 65 crores by Indians. I could get later figures out if required.

4440. Of the portion held by Indians, roughly speaking, by what classes of the population is it held—do men of small means take any share in those loans?—The bulk is held in what may be termed big holdings, *i.e.*, by rich men and men employed in commerce.

4441. I think you said that it was the policy of the Indian Government to raise as large a sum as possible in rupee loans?—Yes, that is so.

4442. I am not sure that I asked you, but at any rate I will ask you again in case I did not, what is their reason for so doing?—It is firstly a matter of policy. They consider it is politically good for the country that as much of the public debt as is possible should be held by the people of the country. In the next place, another reason is that the increase in the rupee borrowings tends to reduce the foreign debt, and consequently the home charges.

* Part IV.A of Statistics of British India, 1910–1: Calcutta Government Press.

The witness withdrew.

At the India Office, Whitehall, S.W.

ELEVENTH DAY.

Friday, July 4, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. BHUPENDRA NATH MITRA, C.I.E., recalled and further examined.

4443. (*Sir Ernest Cable.*) You said that the Budget Estimates were based on what is called the normal harvest. Could you define what a normal harvest means? Is it based on an average of yield?—That is so; that is to say, we assume that the rainfall would be moderate and not scanty or plentiful, that the crops would produce what you would call an ordinary yield, and that the trade conditions would be normal throughout the year.

4444. (*Mr. Gladstone.*) I should like to ask you a few questions about the working of the district treasuries. Are there any recent official reports showing the actual daily and weekly transactions?—No, I am afraid there are none.

4445. Could you give us a statement showing the actual balances on different fixed dates at specific treasuries?—No, not without getting the figures from India.

4446. You referred yesterday, I think, to the transfer of surplus funds to the currency chest?—Yes.

4447. Can you tell me how often that may be done in a year?—It may be done at the surplus treasuries almost every month. In fact, at times, when the revenue flows in in large quantities, it may have to be done weekly.

4448. Would a return of the receipts be sent to the Accountant-General every week?—It is sent once every month ordinarily, but, when the revenue collections are heavy, the Accountant-General often calls for a weekly or fortnightly return from the surplus treasuries.

4449. Then he takes action based on the return which he receives?—Quite so.

4450. So that there would not be much delay in transferring any surplus money to the currency chest?—No, there is not usually.

4451. I think you rather indicated that the substitution of a branch bank for a district treasury involved an increase in the minimum Government balance?—For the time it does. So long as the arrangement regarding a minimum guarantee holds good, it naturally involves some increase in the minimum balance.

4452. Would not the saving in establishment charges more than counterbalance the cost of such additional balance?—I have not made any actual calculation, but I am doubtful, because I do not think there is any material saving in establishment charges. At these places Government has still got to maintain what is known as the accountant's department. The bank simply takes over the actual function of receiving and keeping the money and of making the payments. But anybody who has got to make a payment must go to the Treasury, and there we must maintain the proper establishment to give him a chalan or authority to hand over the money to the branch bank. Similarly, as regards the payment, the Treasury officer issues some sort of a cheque or payment order on the branch bank, after satisfying himself that the payment is in order, and that the party who claims the money is entitled to it; then the branch bank makes the payment. So Government saves only a part of the Treasury establishment, not the whole of it.

4453. You would, I suppose, acknowledge that a branch bank ought to be able to conduct the business more economically by being able to combine banking business with Treasury business?—*Prima facie*, it ought to be so, but the difficulty, I believe, is that at these places the need for banking facilities is not very great, and that is why the bank, when it opens a new branch bank and gets the transfer of Government business, insists on some sort of minimum balance for a certain number of years. It is possible that after this period is over the guaranteed minimum balance will be reduced, or it may be possible to dispense with the guaranteed minimum.

4454. Do you not think that on balance it would be advisable for the Government to hold out inducements to the bank to establish these branches?—For that very reason I think it does so. Otherwise I do not think it would ever agree to maintain a minimum guaranteed balance.

4455. I should like to ask you one question on the subject of permanent loans. In England various securities are issued by the India Office to meet the requirements of the money market—short term, fixed dates, bearer and floating bonds. Would not there be a demand for securities of this kind in India?—It is possible that there may be a demand, but then the question is whether it is any advantage to the Government to get this loan. It is very probable that we will get the money at what is known as the slack season in India, but that at the beginning of the busy season, which is more or less our tight season also, we will be called upon to return the money which has been lent to us for a temporary period; and it may not be quite convenient to the Government of India to pay back the money just at that time.

4456. But suppose the bearer or floater bonds were issued with a currency of five or ten years there would be very little fluctuation in price, and these securities would be extremely convenient for borrowing, whether from the Government or from the banks, and would supply a popular want?—Quite so. That would give the Government some additional capital for the time being. But there are objections on principle to raising money by means of these temporary debts. For example, if temporary debt has got a currency of five years and at the end of the five years, when the time comes for repaying it, and there is, let us suppose, a famine in India, Government may not find it possible to repay the money without raising a permanent debt on less favourable terms than it would have got if it had raised the money by permanent debt at the time when it floated its temporary debt.

4457. Quite so; those conditions are met in London, and they might be met there, by bills for a year in the case of an exceptional time, or something of that sort?—My impression is that the India Office them-

selves do not quite favour the idea of raising money for long periods by means of temporary loans. The policy is to raise temporary debt in times of pressure and stringency and then to substitute for this temporary debt a permanent debt as soon as market conditions make it possible to do so on reasonable terms.

4458. My suggestion is that these securities would be extremely convenient for the purpose of loans, say from the Government itself, because they would be redeemable at an early date, they would not vary in price, they would be good security for the Government, and they would be popular with bankers and others to be used for that purpose?—I admit that there would be some advantages, but then there may be countervailing disadvantages, and the disadvantages may be greater than the advantages.

4459. There are one or two questions I should like to ask you on the Budget year. The yearly forecasts are now made in December-January, I understand?—That is so.

4460. Of course, in December-January nothing whatever can be known about the monsoon—about the following season; but if the forecast were made in July-August the general course of the monsoon would be pretty well known?—Of the autumn monsoon, no doubt.

4461. You use the expression "the autumn monsoon"; that is the June-July monsoon?—Yes, that is so.

4462. That is the really important monsoon, taking India generally?—Quite true, but not in all parts of India. For example, a failure of the winter rains would largely affect say the wheat crop in the Punjab, and possibly also in the United Provinces.

4463. That would not be known in December-January, would it; you might have favourable weather later on which would assure the wheat crop?—Quite so, but then in January, or at least about the beginning of February, we have a pretty fair idea how the winter rains will turn out.

4464. But still, the wheat crop in the Punjab and the North-West is not of similar importance to the general rice crop throughout India and Burma, which depends upon the June-July monsoon?—I do not quite accept that statement as regards the Burma rice crop. I am not sure that it absolutely depends on the July rainfall.

4465. (*Mr. Gillan.*) May I ask a question upon that? You are not suggesting, are you, that a failure of the winter rains is of anything like the same importance as a failure of the regular monsoon?—No, not quite.

4466. Not quite?—No.

4467. Is it anywhere in the same latitude, so to speak?—I think so; in fact, I think if there is a failure of the winter rains there is a considerable effect both on the revenue and on the economic conditions of the country.

4468. (*Mr. Gladstone.*) Assuming, as I do, that the June-July monsoon is the really important monsoon, it would be, would it not, a great advantage to Government to make their forecast in July-August rather than December-January?—Yes, there would be some advantage; that is quite true.

4469. Then you indicated that three or four months were occupied in preparing the figures for the Budget. Would it be necessary to have so long a time? Could not that be compressed into a couple of months?—I am afraid that it would be impossible, having regard to the fact that the estimates of the various Provincial Governments have to be incorporated in the Budget of the Government of India, and to the present procedure with regard to provincial Budgets. The provincial Budget has got to be considered in some form or other by the Legislative Councils of the provinces. Previously, I think, we used to finish the Budget in about a month, or a month and a half, but we had to lengthen the period after the constitution of these enlarged councils so as to give them some time to discuss the estimates.

4470. But probably if the Government of India considered it of importance to compress the time it might be managed?—I am not sure about that; in fact, I doubt if it could be managed without curtailing the facilities now enjoyed by the Legislative Councils of discussing the Budget.

4471. If the forecast were made in July it would be possible, would it not, to close the financial year on the 30th September?—Yes, quite so.

4472. And that date, I understand, would coincide with the revised dates which have been recently settled by the Government for railway half-years and years?—Yes.

4473. You are aware that they have lately been changed?—Yes. Of course, the railway year now ends on the 31st March, the same as the financial year; but then, as all the railways make up accounts half-yearly, the change to the 30th September would not really affect them.

4474. (*Mr. Keynes.*) Would there be any technical difficulties in the way of this proposal of changing the financial year to an October-to-September year? Would that date be, for any reason, less convenient than the present date from the purely office point of view?—No, scarcely that, but then I think there may be objections from the administrative point of view. It might mean that the various local governments and subordinate officers would have to be tied down to some amount of office work at a time of year which they probably devote to touring. But I am not sure of this.

4475. (*Mr. Gillan.*) From that point of view it is a better time, is it not, than in the cold weather?—Quite so. It is in the cold weather that they go touring. But, if the Budget of the Government of India is to be finally settled in September, the district officers will have to prepare their estimates some time in March or even February.

4476. (*Mr. Keynes.*) There was some question raised yesterday about the supplementary information, which you supplied to the India Office as to how revenue was coming in in the course of the year, for their guidance in raising loans. You said, I think, that monthly returns of the Comptroller-General were forwarded?—That is so.

4477. What sort of document is that? Is it one from which it is easy for a person who is not actually in India to ascertain what the ultimate receipts of revenue are likely to be?—Of course, it is so difficult to make any safe forecast with reference to the actuals of a month or even of two or three months, and particularly if the India Office have to float their loan, as they did last year, in May. What actually happens is this: The Comptroller-General, immediately the Budget estimates have been settled, distributes the Budget estimates both of revenue and of expenditure over the twelve months of the year. Then at the end of every month he issues a printed statement comparing the actual revenue receipts and the actual expenditure with the distributed Budget, and that shows whether the revenue and expenditure are actually showing an improvement over the distributed figures. The India Office can, however, always find out from these returns whether the actual closing balance of the previous year was materially higher than the amount entered in the Budget Estimates. About that there can be no doubt, and if that balance shows any large improvement I think there would be no difficulty in their judging whether it is necessary to raise the full amount of the loan if the market is unfavourable to them.

4478. But this is simply a monthly routine document from which they can draw their own conclusions?—Quite so.

4479. There is no process by which the Financial Member or the Financial Secretary in India informs the Secretary of State from time to time as to what is known as to the likelihood of the estimate being realised?—No, that is the very point which I mentioned yesterday. They are not asked for any advice on the point. The India Office gets these routine papers, and they are more or less in a position to judge for themselves. They have never asked for the opinion of the Government of India in this particular matter.

4480. If the opinion of the Government of India was asked for they could probably give the India Office

something more valuable and more definite than this routine monthly document?—Very probably.

4481. In estimating the heads of revenue I suppose amongst the most important, and also amongst the most doubtful are railways and the land revenue?—Yes, and Customs also plays an important part.

4482. In estimating these many months before you can have any accurate information as to how the seasons will turn out, do you assume something rather below the average of previous years, or on what principle do you do it?—As regards land revenue there is not much difficulty. We can find out what the demand is, and if there is no famine or failure of the monsoon or other special causes, which would necessitate any considerable suspensions or remissions of revenue, then we can make a fairly correct estimate of the land revenue.

4483. Is the estimate which you publish in March, then, an estimate based on the hypothesis that there will be no important remissions?—Quite so. We only allow for ordinary remissions, not for any special remissions necessitated by famine or other abnormal circumstances.

4484. It is rather, therefore, a maximum estimate than a minimum estimate?—For land revenue it is generally so. At the same time there are certain tracts where the land revenue assessment depends upon the area cropped, so that if the crops are better than the average in those tracts the land revenue returns will be higher than the normal figures.

4485. In those tracts you know the actual average figures of the previous years?—Not exactly the actual average figures; we know at the time what the cropped area under assessment is, and the estimates are based with reference to that area.

4486. The area which has been sown?—Which has been settled, so to speak.

4487. I mean in these districts of variable crop area you cannot know, when you are making the estimates, what the area will be in the following year. In estimating that, do you take the average which was cropped in previous years or not?—We do not actually take the average of previous years. We allow for some growth over that average. There is always some normal growth over that area, and this normal growth is allowed for. In fact, if crops are plentiful the land revenue becomes considerably increased; on the other hand, if, owing to floods or failure of the rains or other abnormal causes the crops do not come up to the average, then the land revenue falls off.

4488. I should be right, therefore, in concluding that on the whole, apart from some small adjustments, in your estimates of land revenue you do not make any considerable allowance for the contingency of a bad harvest?—Quite so.

4489. They are rather towards the maximum than towards the minimum?—They are based, as I said, on the normal harvest. You cannot say it is the maximum, because if the harvest is a really good one, in some places you may get a larger return from the land revenue than if it is a normal harvest.

4490. But that seems to differ from the impression I got from your former remarks, that it was based on an actual fixed figure. Is this normal figure a computed one or an average?—That figure is based on the actual figure of the previous years after we have eliminated from it all abnormal collections of arrears, and things of that sort. Then we make allowance for the normal growth of revenue, not for any abnormal growth or for any abnormal remissions or suspensions, and that is how we make our estimate.

(*Chairman.*) It is very much like the British Budget estimate.

4491. (*Mr. Keynes.*) Then with regard to the other important item, in the case of railways have you any information as to how the estimating is done? I suppose for the most part you accept the figures of the railway authorities?—As a matter of fact we do not; we make very large corrections in their figures with reference to the actuals of the past year; but, of course, here also we try our best to eliminate all abnormal factors, and the corrections we accordingly have to make are often very considerable; in fact, in some years they amount to something like two crores.

4492. And in the case of Customs?—In the case of Customs we mostly base our Budget Estimate on the receipts in the ten months or the eleven months of the current year. Then we make allowances for any abnormal factors; for example, in recent years the imports of silver have been abnormally high, and in forming our Budget Estimate we had to allow for the fact that these high imports might not be continued in the following year. Similarly we make allowance for any other large abnormal factor which may have affected the revenue in the current year, such as the Burma rice exports, which are affected by a variety of causes, and therefore we take the Budget Estimate at what seems to us to be a normal figure.

4493. I had formed a general impression that the estimates were based on so cautious a principle that there would be a surplus unless the year was a rather poor one, and a large surplus if it was a good one. You would not agree with that, I understand, from what you have said just now?—It is not wholly correct, for example, there was a year in recent times when the actual result, owing to famine, was a large deficit as against a small surplus which the Budget had anticipated.

4494. Has there been any tendency for the Budget Estimates to be more cautious in quite recent years than they were say eight or ten years ago?—No, I do not think so.

4495. You put down the recent large surpluses entirely to unforeseeable causes and to exceptionally good seasons?—Quite so; it is partly due to opium and partly to the very great improvement in the economic conditions of the country.

4496. (*Sir Robert Chalmers.*) The general prosperity of India?—Yes, quite so.

4497. (*Mr. Gillan.*) As regards opium, it was due to a deliberate policy which excluded from the Budget Estimates a certain portion of the opium revenue in advance?—Yes; I think I mentioned that to the Chairman yesterday.

4498. (*Mr. Keynes.*) I have one other point, not connected with the Estimates. In the million which you allowed in the minimum balance as lodged at the Presidency banks did you include the amount lodged at the branches or only that at the head offices?—No, that is only at the head offices. It is 4½ millions for the district treasuries, including the branch banks, and 1 million for the head offices of the Presidency banks; that makes 5½ millions. Then there is 2½ millions for the reserve treasuries.

4499. I should like a little more information as to the precise relation between the Government and the Presidency banks at the branch offices. I suppose the amounts lodged there on Government account are very variable in amount—I mean at the individual offices?—At individual offices I do not think they are ordinarily much higher than what we keep at a district treasury. There may be a little more in cases where we have to give a guarantee under the new system, but otherwise I do not think that they are materially higher than what Government would keep at a district treasury.

4500. I did not mean to inquire so much as to their absolute size, but rather as to whether they are very fluctuating? Are they much higher at some times of the year than at others?—If figures are required I think I could put in figures.

4501. You have not any impression on your mind as to whether they are fluctuating?—I have no definite recollection, but I think I have the figures readily available.*

4502. I am asking these questions because I want to know whether it is necessary for the Presidency banks to keep at the branch offices a very large proportion of the Government deposits in cash. If the Government deposits are held at call, and are of a very fluctuating character, evidently they would have

* The figures are being obtained from India, and will be printed as an appendix to the Final Report.

to hold large cash deposits there, and I wanted to know how far that was the case?—My impression is that ordinarily there is no material fluctuation in the balances kept at the branches of the Presidency banks.

4503. Even speaking of the individual offices, not merely of the aggregate?—Quite so.

4504. (*Sir Shapurji Broacha.*) Of course, you are telling us the views of the Government of India, and not your own personal views?—No. The views which I have given in several cases have been my personal views, and I think that is distinctly understood. They do not commit the Government of India in any way.

4505. What would be the exact minimum amount that the Treasury requires for carrying on the business of the country?—The district treasuries?

4506. All put together?—It is roughly 5½ millions, without allowing for any margin or reserve, but if you allow for a reasonable margin and a small reserve it is 8 millions, the figure I mentioned yesterday.

4507. That 8 millions does not include the balances belonging to the provinces or the municipalities?—It includes everything; it is the amount which is held at any particular date in the Government treasuries.

4508. Then we are told that 18 crores or 19 crores is the minimum balance required, or 12,000,000*l.* sterling. You do not agree with that?—No. As I tried to explain yesterday, that sum represents the minimum working balance which the Government of India wants at the end of March. In India there is a period of high balances and a period of low balances. That amount of 12 millions is required at the end of March, so that we may have a balance of at least 5½ millions in December, which is the month of our low balances.

4509. Five and a half millions is the required minimum in December, and 8 millions for working balances, which leaves a little margin for the Government. Then anything after 8 millions could be lent. Of course, the Government may require money for other purposes sometimes all of a sudden—we know these contingencies happen in every country—but for the purposes of the Government 8 millions, or 12 crores, would be sufficient, keeping the margin of about 2 millions, because 5½ millions is the absolute minimum?—I would not say that quite as regards the end of the year, March 31, because apart from the 300 district treasuries we have got a large number of sub-treasuries, about 1,500, and the land revenue mostly comes in, in the first instance, in those sub-treasuries. A good portion of the land revenue comes in in March, so that there may not be time to bring in all these revenue collections at the district treasuries by the end of the month, and the minimum balance in the district treasuries on March 31 must necessarily be higher than 4½ millions.

4510. I understand all that, but I accept your version, that so long as the Government of India have 8 millions in the treasuries they have a fair amount of working margin for contingencies, because the absolute minimum is 5½ millions. I accept your version as regards all these difficulties, and so on, but you require 8 millions in the treasuries always to keep a fair working margin?—I do not see how that follows. We want 8 millions in December.

4511. Five-and-a-half millions is the minimum which you require, and 8 millions would leave a working margin; 8 millions you will always have in the treasuries, there is no doubt of that. That will leave a little working margin, but when there is 12 millions there would be 4 millions in excess, do you agree with that?—Yes. But that 12 millions is required at a particular date, and the 8 millions at a different date.

4512. Quite right, but I am speaking of that particular date when you have more than 8 millions. That is a surplus which the Government at that time does not require, except in case of extreme contingencies?—I am not even prepared to say that, because what actually happens is this: The Secretary of State's drawings are heaviest between December and March, and, even if we restrict our remittances to the amount required to finance the home Treasury, his drawings will still be heaviest at that period, so that towards the end of the year we really want a higher balance in India.

4513. Never mind. I accept your version, as I said. You give us a version that 5½ millions is the minimum, and 8 millions would leave a little margin for small contingencies, in order to keep money easy?—Anything over that would be a surplus for the time.

4514. (*Mr. Gillan.*) May I explain one thing, Mr. Chairman? I think what the witness means is that these 8 millions is the balance that is required about December with reference to the conditions of December, but that perhaps a slightly higher working balance would be required, say, in March, because of the different conditions of March. (*To the witness.*) Is that what you mean?—A slightly higher balance. That is exactly so.

4515. (*Sir Shapurji Broacha.*) You say slightly higher. It is 8 millions and 12½ or 12 millions, which is 50 per cent. higher, that is not slightly higher?—That may be so.

4516. For instance, if you have 12 millions you can certainly easily lend for the purpose of trade 2 millions?—The point is this: We could in fact possibly lend temporarily if the trade would promise to pay it back to us say in the next month or so.

4517. There is no doubt of the trade promising to pay back at the time when the loan terminates, there is no doubt of that; that contingency you need not calculate upon. If Government promises that 2 millions taken in January would be repaid in April certainly the Indian market is such that the Presidency banks would be able to pay with absolute certainty, you can take that, and on that contingency I think the money could be lent?—Yes; in fact I have already said there would be no practical difficulty on the part of the Government of India in lending the money.

4518. You have referred to what the Government would risk by lending the money. I think prosperity of trade means prosperity of revenue?—Did I say the Government would get any advantage? What I have said is this, that the Government would lay itself open to certain risks, and the Government ought to avoid those risks as far as possible. I think that is all I said.

4519. But if the Government has not helped the trade up to now the Government would be working on the wrong policy?—I do not think it is a fact that they have deliberately not helped trade.

4520. Never mind, I do not say that they did it deliberately, but that was their judgment, and it was a wrong judgment. What do you mean by saying that the Secretary of State sells, or keeps selling, Council bills for the settlement of trade until the balances are exhausted? You said that. I think the Secretary of State has nothing to do with the settling of the balance of trade, except to get money which he wants here?—I am not sure that I used the exact expression. What I think I said was this, that it is the practice of the Secretary of State to sell bills and transfers in excess of what he actually requires to finance the home Treasury, and that he does so to meet the demand on the part of banks for remittances to India. It is not the function of the Secretary of State to do so, but then it is beneficial both to the Government and trade, and for that reason he does it.

4521. These 300 district treasuries often have surplus money which they can always transfer from one treasury to the other; sometimes one treasury has got more money than it requires, and they may have to meet demands at some other place, for instance, Bombay, and Bombay wants a transfer. Of course, the Government does that transfer?—It is often done.

4522. So these 300 district treasuries give facilities for trade by giving transfers?—Yes, quite so.

4523. Are there not 800 sub-treasuries?—I could not give you the exact figure, but I should think there are nearer 1,500 than 800.

4524. And they do the sort of business which a branch of a bank would do where there is no branch of a bank—transfer money from one place to another?—Some of the branches have got agencies where they have not got branches.

4525. That is what I said, and these branches are allowed to use the minimum balance which they have agreed between them, the Presidency banks and the Government; they are allowed to make what use they like of the minimum balance?—Yes, they can.

4526. What is the total Government balances in these branches?—I suppose we have every week a statement of the Government balances which there are in the branches?—I could give you the figures. I have the figures, and I could give them if they are required.

4527. They would appear in their statement every week?—I do not know.

4528. They do appear?—In the statement published by the bank?

4529. They estimate the Government balances, so much in the Presidency towns and so much in the branches?—Yes, the figures are given in the statements published by the banks themselves.

4530. For instance, at the end of September we know the conditions of the monsoon, and, except for the small winter crop, we know the condition of the crop to be exported. The condition of the different crops—jute, rice, indigo, and all those crops—is known at the end of September; at least, we know the condition of the monsoon at the end of September?—We know at least the effect of the principal monsoon.

4531. I am talking of the principal monsoon. Up to September the monsoon throughout the whole country is known?—Yes.

4532. And if you are framing your Budget in June to the end of September you know the condition of the railway earnings, you know the condition of the jute, cotton, and rice crops; all those conditions are known to you?—Yes.

4533. The wheat crop is not absolutely dependent on rains; for instance, in Gujerat you do not want rain at all; the dew does the business. The dew, of course, helps in growing the wheat in Gujerat?—Yes, but then in some parts of the country——

4534. I know that is not so in several provinces, in the United Provinces and in the Punjab, but then, of course, there to a good extent the canals help the wheat crop?—That is so in irrigated areas.

4535. So that at the end of September, except for a very small amount of the quantity to be exported, everything would be known?—That is so.

4536. Then if they were to make their Budget from October 1 they could forecast the character of the whole of the year and commence again next October, because on October 1 they will know what the next year will be like. Do you think in that month the heat would prevent the Government knowing these things?—The Budget would have to be prepared some time in July or August, but the heat would not affect in any way the Government of India, or any local government.

4537. Of course, the loans could be raised in the monsoon, independent of public works?—Yes, but there is one difficulty. The Government would have no idea at that time of the trade conditions. The busy season would be from December to February or March, and the present advantage is that the Government has definite information as to how the trade conditions in the busy season are going to turn out. If the financial year is changed as proposed, it will certainly have to budget for normal trade conditions.

4538. I beg your pardon. At the end of September we make up our mind what the export crop will be, and I think if we can judge, the Government can judge with equal certainty?—Is the produce an absolute index to the trade? Does it not depend upon the demand from other countries for the export of the produce? I doubt if they would be able to make a fair estimate of, say, the cotton movements at any time in July and August.

4539. In July and August you cannot, because if the September rain fails half the crop perishes?—Yes.

4540. At the end of September you are certain of the rain; you do not want any more until November or December?—Yes, but then you would have to frame your Estimates somewhere in August, even if the year opens on October 1.

4541. Yes, but the progress of the monsoon goes on with the progress of the Budget-making, and if odds and ends are to be put in you can put them in at the end of September or the middle of September?—I am not sure of that. If the financial year is to begin on October 1 the Budget must be settled in September.

4542. I suppose your Budget makes provision for the normal growth even on the last season's revenue?—Yes, it does.

4543. Of course, you cannot provide for the failure of the monsoon or for the failure of other things, and you cannot calculate to a certainty the coming railway revenue of the year or the coming land revenue of the year in January or February?—That is correct.

4544. How do you make your calculations for the purchase of silver? For instance, you have 19 crores of silver now, and say at the end of August or September you are assured of your monsoon, how much silver do you think you ought to have for the busy season?—I think we have laid down that we want 18 crores to start with at the beginning of the busy season.

4545. (*Mr. Gillan.*) 24 crores, is it not?—Yes; there is the margin of 6 crores in the Gold Standard Reserve. By 18 crores I meant the stock in the Currency Reserve.

4546. (*Sir Shapurji Broacha.*) And you would have those 18 crores in the Currency Reserve during the busy season?—Yes.

4547. If it falls, you have to buy?—Quite so.

4548. (*Sir James Begbie.*) When a change of taxation is contemplated when you are preparing your Budget, is it a matter of discussion between the Government of India and the Secretary of State?—Yes, all changes of taxation require the sanction of the Secretary of State.

4549. Is it the procedure that the Government of India submits proposals to the Secretary of State?—Yes, quite so.

4550. The Secretary of State does not suggest any alterations himself?—On occasion he has done that, but generally with reference to the proposals of the Government of India. When the proposals of the Government of India come to him it is quite open to him to say: "You have got this amount of available "revenue surplus to dispose of. Instead of disposing "of it in the way you propose, please consider whether "you should not adopt these other alternative "methods." Thus, for example, supposing the Government of India proposed to reduce the Customs tariff so as to reduce their available surplus it would be quite open to the Secretary of State to say: "I do not "agree with you about this particular matter. Please "consider whether it would not be better to reduce "the Salt duty, and not the Customs duty."

4551. The Secretary of State does not propose any alteration off his own bat?—No, it is not usual for him to do so. He has not got the necessary information before him.

4552. In the Budget Estimate for 1910–1 the amount of Council bills to be sold was put down as 15½ millions. Did that sum include any provision for capital expenditure?—Yes. What actually happens, as I explained yesterday, is this: The Government of India, in consultation with the Secretary of State, finds out how much money will be available for capital expenditure. Now that money may be obtained either from the revenue surplus or from loans.

4553. Loans in India?—Loans in India or in England. After the amount of the loans has been settled we settle the amount of the remittances from India to England. The Secretary of State estimates that he has got a certain amount of revenue expenditure to meet in England and that he has also got to meet a certain amount of capital expenditure. He then tells the Government of India: "To meet these "disbursements I will raise a certain amount by means "of loans in England; I have got a certain amount of "surplus balance which will be used for that purpose "also, but there remains this difference of 15 millions, "or whatever it may be. You will have to send that

" sum from India by means of Council bills, or, if " Council bills fail, by actual remittances in gold." So that the 15½ millions to which you are referring was intended to cover all the payments at the home Treasury, both revenue and capital, in that particular year.

4554. Can you say how much capital was included in that sum?—I could give the amount of capital expenditure in England in that particular year and the amount of capital receipts, but it would be impossible to say how much of this 15½ millions was actually earmarked for capital payments in England.

4555. It is not earmarked in advance?—No, there is no earmarking.

4556. In the case of the current year the amount put down for Council bills is about 21,650,000*l.* Can you say how much of that is intended for capital expenditure?—As I have already said, there is no earmarking as regards the Council bills or the remittances, but you can have a good idea of what portion of these Council bills is required for capital payments in England by working out the net capital expenditure in England in the year.

4557. You have told us about the advice that is sent every month, I think it is, to the Secretary of State, stating how much balance he may draw against?—Quite so.

4558. Does that mean that the whole of the surplus balances for the time being are specially held to meet Council bills?—Yes, they are placed at his disposal.

4559. (*Mr. Gillan.*) I think some of the evidence you gave suggested that there was a great difficulty about increasing the number of branches of Presidency banks without Government assistance?—Yes, I think that has been the experience in recent years.

4560. Do you know of any branch that has been started without Government assistance?—I do not think I could reply to that question definitely.

4561. Is it within your knowledge that the Bank of Madras have, as a matter of fact, started a number of what they call sub-agencies?—Yes, they have done so.

4562. And in their case no Government assistance was given, I think?—No.

4563. In reply to the Chairman yesterday on the question of lending money from Government balances in India, you mentioned certain objections. One was, I think, that money for which the Government might have a sudden demand would be locked up?—Yes.

4564. That objection would not apply very strongly, would it, to money which was lent out, say, in January or February and was repayable by April? What I mean is that in that period there is no sudden demand likely to come on the Government through any seasonal calamity?—No; but then there may be other calamities apart from seasonal ones.

4565. Will you mention them?—There may be a big operation on the frontier, or a big war.

4566. But the probability, we will say, of a sudden demand on the Government is less at that time of the year?—That is so.

4567. They can see their way more clearly at that period?—Yes, that is so.

4568. Another objection which you mentioned was in connection with Council bills?—Yes.

4569. You mentioned that it might reduce the amount available for Council bills?—That is so. That is the view which has been put forward at times.

4570. I think that is another point. For the time being it would actually reduce the amount available for Council bills?—Yes.

4571. Then, when the Secretary of State has drawn all that he wants to draw, there is normally an amount left in our balance over and above the minimum working balance at that time of the year, is there not?—Yes, quite so.

4572. Which would be available for loans?—Yes.

4573. As regards the amount of Council bills sold altogether, or the price at which they would be sold, your view, I take it, is that there would be a reduction in the busy season and an addition in the slack season?—Yes, that is so.

4574. If the result was slightly to reduce the price obtained in the busy season ought there not to be a corresponding betterment in the price in the slack season?—Yes, probably that is so; but on the whole there is likely to be a reduction in the average.

4575. That is what I wanted to get at. How do you work that out?—Because in the busy season, when there is a stringency of money in India, they take a larger amount of telegraphic transfers. If we offered loans from Government balances, when the time came for repayment they would import money into India by means of bills, and as the rate for the bills is naturally lower than the rate of transfers, there is thus a probability of the average rate for the year being lower.

4576. (*Sir James Begbie.*) But the bank will be paying interest on the loans in the meantime?—Yes; I think I mentioned that yesterday.

4577. (*Mr. Gillan.*) So that this effect would result from the substitution of bills for telegraphic transfers; that is what you mean?—Yes.

4578. (*Mr. Gladstone.*) And that would mean a difference of $\frac{1}{32}$ in the rupee in exchange?—Yes, that is the usual difference.

4579. (*Mr. Gillan.*) As regards the previous attitude of the Government upon the question of loans, it is the case, is it not, that in 1899 the Government of India did propose that loans should be given as a matter of system?—Yes; I think they made that proposal.

4580. And that proposal was negatived, as a matter of fact, by the Secretary of State on the ground that it would interfere with his Council bill operations?—Quite so.

4581. But it is also the case, is it not, that at that time the Government seem to have been thinking rather of an all-the-year-round loan, a more or less permanent loan?—I am not sure of that. No; I do not think it is correct. My recollection is that they distinctly stated that the loan would be given for three months; that was to be the maximum period of the temporary loan.

4582. (*Sir James Begbie.*) When was that?—That was 1899, I think.

4583. (*Mr. Gillan.*) I am not sure if I am right in thinking that you said yesterday that you would prefer loans to be given from currency?—I did not exactly say loans, but I said that the assistance to trade should be given from currency.

4584. You would prefer that method?—Quite so.

4585. But even if you were to give assistance from the Currency Reserve that does not dispose of this question of how you are to deal with the temporary surplus that you have in your Treasury balance from January to April, does it?—No, of course it does not.

4586. We have still to consider that question, have we not?—Yes. In connection with this I think I may mention one incident that I came across yesterday. It is possible, after all, that there may not be any demand from the banks for loans from Government balances in India. An instance, which goes to support this view, took place, I think, in 1907. The local branches of the Exchange banks approached the Government of India for loans from the balances in India, but the head offices of these banks said that they preferred using Council bills to taking such loans.

4587. There is one point I wanted to ask you with regard to the amount that is left with the Presidency banks. You said that the practice of the Government of India is to withdraw money from them when our balance with them exceeds a certain sum?—That is the ordinary practice.

4588. But it is recognised, is it not, that the banks may retain even a surplus above that sum on payment of interest?—Quite so, yes.

4589. That is recognised?—Yes, that is recognised.

4590. Have you ever known it to be done?—I know of no case in which actual interest has been charged, but I know of cases where a higher balance than the ordinary maximum has been left at a Presidency bank.

4591. That is so, but has a Presidency bank ever said to us when we were on the point of withdrawing

our money, "Do not do it; leave it with us and let us "pay interest"?—No, never.

4592. You never knew them do that?—Not in recent years, no.

4593. (*Sir James Begbie.*) Has that intention of the Government been intimated to the Presidency banks, that they will leave the money if the banks will pay interest upon it?—Yes, I think they know it.

4594. (*Mr. Gillan.*) You were speaking yesterday about the Government of India advising the Secretary of State as to the flotation of loans at home. The fact remains, does it not, that generally these loans are floated at a period of the year when it will be very difficult to forecast what is going to happen, or to give the Secretary of State any advice on the point?—Yes, quite so. When the loans are floated in January or February there would be no use in giving the Secretary of State any advice.

4595. Or even when he borrows in April or May?—As I mentioned yesterday, when it comes to a question of borrowing, after the close of the financial year the actual state of the cash balance, as compared with the Budget estimate, will help to some extent at least in deciding whether it is necessary to raise a loan, or the full amount of the loan budgetted for, in an unfavourable market.

4596. I understand that, but even supposing your opening balance has turned out to be better than was put down in the Budget, would it be very safe at that early period of the financial year to base your action entirely on the increase in your opening balance without reference to the possible outcome of the monsoon, for instance?—Of course, if there is anything wrong with the monsoon the result will probably be the issue of a much larger loan; but in a case of that sort the India Office may prefer to have recourse to temporary loans.

4597. Then I think the Chairman in the same connection put to you a question about the possibility of increasing the loan raised in India in the course of the year?—Yes.

4598. During the year?—Yes.

4599. One point I wish to put to you in that connection is this: Is it not the case that when the Indian loan has been announced in the Budget the Presidency banks and all the people concerned make their arrangements on that basis?—Yes, that is so.

4600. With a view to that particular sum being raised about July or August?—Quite so.

4601. The Government of India have generally considered that it would not be very convenient to the banks or to others to make a sudden change in the amount announced?—Yes, that is so; in fact, it would affect the rate.

4602. And they probably would not make any change unless in view of some very special necessity?—Quite so; that is true.

4603. (*Sir Shapurji Broacha.*) May I ask one question? The Secretary of State could not refuse from April to December to sell bills at a lower rate than 1*s.* 4*d.* He has to spend money. I suppose the Secretary of State has to spend half the amount allotted to him between April and December or April and November?—It may be even more than half.

4604. So that if he does not sell bills at the market rate, and at a time when the banks could not make provision for their export season, I think he has to sell because of necessary expenditure here at less than 1*s.* 4*d.*?—Not always necessarily, because he has got some reserve under his control upon which he can fall back if the exchange is really unfavourable.

4605. By "unfavourable" I do not mean below the gold point; I mean if it is still at the gold point; and the gold point is not 1*s.* 4*d.*; it may be sometimes 1*s.* $3\frac{29}{32}d.$, or it may be sometimes 1*s.* $3\frac{31}{32}d.$, and so on?—Yes.

4606. So the Secretary of State, in order to provide for his requirements, has to sell between April and December, or October or November, what he requires?—Quite so.

4607. And supposing he sticks out for 1*s.* $4\frac{1}{16}$ or 1*s.* $4\frac{1}{32}d.$, or even 1*s.* 4*d.*, and the monsoon does not turn out well, he may be left in the lurch?—Quite so.

4608. So as business people you have to provide as you go on?—Yes.

4609. And the Secretary of State is not wrong in selling for his requirements now at 1*s.* $3\frac{29}{32}d.$ or 1*s.* $3\frac{31}{32}d.$?—No.

4610. So those who criticise the Secretary of State's action do not take into consideration his requirements?—Criticise in what respect?

4611. Have you read Mr. Webb's book? He lays down laws?—I know.

4612. It would not be so if the Secretary of State were allowed to draw in anticipation of one year's requirements; then he could wait?—Yes, quite so.

4613. If he fails in getting his rate he has still money in hand?—Yes.

4614. You said that the Secretary of State did not want to lend in India because it would interfere with his exchange operations?—Quite so.

4615. Of course, I need not ask you: the Secretary of State was wrong in that one thing; the banks bring out money in India immediately to pay for their export bills, and it would make no difference whether the money is at 2 per cent. or 6 per cent. in India except for a very small amount; but, of course, that is a matter for discussion?—Yes.

4616. (*Lord Kilbracken.*) I think you said that the India Office was supplied with financial statistics from time to time by the Government of India as the financial year went on, but that the India Office did not invite and did not receive the comments of the Government of India on those statistics?—What I exactly said was that the India Office never asked for any comments.

4617. And did not you say or imply that they were not volunteered by the Government of India?—Exactly so, quite.

4618. You expressed the opinion that it would be advantageous if such comments were asked for and supplied?—Quite so.

4619. But I suppose we may assume that if the Government of India thought it advisable to comment on those statistics it would do so without hesitation, and would not wait to be invited?—The point is that it is well understood that so far as the loan operations in England go the Secretary of State is the final authority, and no advice on the part of the Government of India is required.

4620. What do you mean by "is required"?—is invited?—Yes, that is so.

4621. You mean it is not asked for?—Quite so.

4622. But you do not mean that it is not required in the sense of not being advantageous?—It is a matter wholly for the decision of the Secretary of State. The Secretary of State has never asked the Government of India for any advice in the matter, and the Government of India naturally has not considered it proper to give him advice of its own motion.

4623. I should have thought if the Government of India had an opinion they would volunteer it. I take it you are referring exclusively to official correspondence?—Yes, that is so.

4624. You are aware, no doubt, that there is a very full and free exchange of opinion and of views between the India Office and the Government of India by means of private and semi-private letters and telegrams?—Yes, quite so.

4625. Do you think that as a matter of fact the Inida Office is not at any given moment fully informed as to the views of the Government of India on the financial situation from week to week?—No, I do not think there is any such definite practice.

4626. You do not think that they are informed?—My impression is that the India Office are not actually informed about the financial position from week to week.

4627. You think that they are not sufficiently informed by means of official correspondence, with the addition of the private and semi-private correspondence which is, as we all know, always going on?—No, I do not think any advice or any definite information is furnished regularly from week to week by means of this private correspondence.

4628. You are not aware of it, at any rate?—Quite so.

4629. You said also that the Secretary of State does not take the initiative in questions of taxation. You mean that he does not do it in an official despatch or telegram?—Quite so.

4630. But, as the Secretary of State is in constant correspondence privately with the Government of India is it not impossible to say, as regards any given proposal, whether it really originated in this country or in India?—Quite so. Of course, it would be impossible for me to say whether it is usual for the Secretary of State to write privately to the Viceroy asking him to consider a particular proposal.

4631. (*Chairman.*) I want to know now about the paper currency system and reserves. In the first place, as regards the paper currency system, it is rather a rigid system at present, is it not?—Yes, it is.

4632. Do you think it would be desirable at this stage to make it more elastic?—I think an experiment might very well be tried.

4633. Do you think it would be safe now to increase the fiduciary portion of the issues?—Yes, that could be done now without any inconvenience.

4634. Is there any figure in your mind by which you would think it safe to increase the fiduciary portion?—No, I have not got any particular figure in my mind.

4635. I mean the percentage of the whole?—I do not think there would be any difficulty if we kept about one-third of the net circulation in securities.

4636. What would you say to the suggestion that a part of that fiduciary portion of the reserve, instead of being placed in what we ordinarily mean by securities, should be used for assistance to trade?—I think that could very well be done. In fact, that was what I was coming to yesterday, viz., that, instead of making any regular arrangement of lending money to banks at times of stringency, we might have a more elastic paper currency.

4637. I think you did speak yesterday, and again to-day, of giving assistance to trade, if assistance was to be given, from paper currency rather than from the balances?—Yes.

4638. Was that what you had in your mind when you so spoke?—Quite so.

4639. As regards the Gold Standard Reserve, am I correct in saying that that exists solely for the support of exchange, or has it other objects?—That is its main function. It has also been held that, apart from its function of supporting exchange in times of difficulty, there is the other function of supplying rupees in exchange for gold when there is an abnormal demand for rupees.

4640. You regard it as part of the object of the Gold Standard Reserve to supply, not gold to India, but rupees to India?—Yes, in times of stringency, quite so.

4641. Would not that rather be the part played by the Currency Reserve?—Yes, that is the part which the Currency Reserve ordinarily plays, but in time of stringency, when the Currency Reserve may fail to satisfy the purpose, it is necessary to have some sort of special reserve, and it has always been held that it is the function of the Gold Standard Reserve to supply that special reserve.

4642. How does the Gold Standard Reserve supply that need?—We have what we call the rupee portion of the reserve in India, where we hold about four millions sterling, and in times of abnormal demand for rupees we have indented upon this reserve.

4643. Then the rupee portion of the Gold Standard Reserve which is kept in India exists merely for that purpose?—Quite so.

4644. I think that is a departure from the recommendations of the Fowler Committee?—Yes.

4645. In their recommendations it was contemplated that the Gold Standard Reserve should have no object except to maintain the exhange?—Yes, but then I think it follows as a consequence of that recommendation, that if there is a shortage of rupees in India the result will be that exchange cannot be maintained at the standard particular rate.

4646. What would happen if there was a shortage of rupees in India?—Rupees would be at a premium above the standard rate.

4647. So that in those cases you are using the Gold Standard Reserve not to maintain the exchange value of the rupee, but to prevent it from rising too high?—That is so.

4648. (*Mr. Keynes.*) May I interrupt? If there was a shortage of rupees would it not be necessary for the Government to withdraw their notification? At present there is a notification that rupees can be obtained in exchange for sovereigns?—Yes.

4649. If the Government had no more rupees left they would have to withdraw that notification, would they not?—Quite so, but then that would lead to a dislocation of trade and a large amount of trouble.

4650. I mean no premium could result unless that notification had been withdrawn?—That is quite true, but in the Mofussil if there is a shortage of rupees the result will be that there will be a premium on the rupees in circulation.

4651. (*Chairman.*) Have you known any cases where there has been a premium on the rupee?—I have known of cases where there has been very great difficulty owing to trade not getting the proper amount of rupees that it required; in fact, that is exactly what led to the establishment of this special holding of rupees in the Gold Standard Reserve.

4652. Assuming that a portion of the Gold Standard Reserve is to be devoted to that purpose, it follows, I think, that it must be kept in silver?—Yes, that is so.

4653. And that the proper place for that portion of it is in India?—Yes.

4654. Do you consider that the proper place for the rest of it is in London?—Yes, I do.

4655. Will you tell me very briefly why you say that the proper place is London?—Because the function of the gold portion is to prevent exchange from falling materially below the standard rate of 16*d*. Now if exchange falls below that rate, the main difficulty is that the Secretary of State will not be able to meet his sterling obligations. For that purpose it is essential that this reserve should be at a place where it could be readily available to him to meet these obligations.

4656. (*Sir Robert Chalmers.*) Not only his obligations, but also to maintain parity for trade in general?—That is so. In fact we maintain that by selling bills in India on London in exchange for rupees.

4657. And that might be regarded by some as even more important than the transactions of the Secretary of State?—That would undoubtedly be more important from the point of view of trade itself.

4658. And India generally?—Yes.

4659. (*Chairman.*) I think it has been suggested to us by some witness that one purpose of the Gold Standard Reserve is to supply gold to India. Do you agree with that?—Of course, at times of stringency the supply of gold in India itself also helps to maintain parity of exchange. If, for example, we have got a portion of the reserve in India and rupees are getting redundant, so far as the standard rate of exchange is concerned, then if we issue the gold freely the result is that it partly helps to raise the balance of trade in favour of India, because the gold so issued may either be exported from the country or it may tend to reduce the import of gold into the country; so that in either way it helps to raise the balance of trade in favour of India and it thus helps to improve or steady the rate of exchange. But then I think that this function of supplying gold in exchange for rupees or notes should be performed by the gold in the Currency Reserve so long as we have a large amount of gold in that reserve in India.

4660. Do you say that experience shows that gold issued to India in times of exchange difficulty does support the exchange?—I have an impression that it does so; that seems also to be the natural consequence.

4661. Take the case of 1907-8. I think about four and a half millions additional gold were issued, if I remember rightly, from the treasuries?—That is

possible. The crisis extended over portions of two financial years. My recollection is that in one of these years two millions were issued. Probably the remaining 2½ millions were issued in the other year.

4662. I think I am right in saying four and a half millions; I think there was evidence that only about a quarter of a million of that was exported?—Is that so? I had an idea that about two millions were exported, but I am not sure.

4663. This evidence was in a memorandum submitted to us by Mr. Abrahams; the statement relates to the events of 1907–8: "It will be seen that the "sovereigns held in Government treasuries in reserve "in India decreased between September 1907 and "September 1908 by 4,394,000*l.* of which 215,000*l.* "represented light coin sent by the Government of "India to the Secretary of State and the remainder, "4,179,000*l.*, issues to the public in India. The export "on private account during the same period amounted "to just about 250,000*l.*" (*see* paragraph 9D (*b*) of "Appendix III., page 90). It would seem from that, as far as one can lean upon that experience, that gold in circulation in India or issued in India does not go to the support of exchange?—But then, even if the gold is absorbed it will reduce the demand for import of gold into the country, and in that way it would support exchange.

4664. Have you any view to express on the question of the opening of a mint in India?—I think myself that we ought to have a gold mint.

4665. Will you tell me why?—The main reason is that we ought to have some means of coining a gold coin in India.

4666. I must ask you why again?—Because I think that, for the time being, it would help us in the maintenance of the gold exchange standard to have a larger circulation of gold in India, and though it is true that we get our requirements by the import of sovereigns into the country, a gold mint in India would indicate to the public at large that Government was certainly earnest in its endeavour to foster gold circulation in the country. It would also attract to the mint the amount of gold produced in the country itself, and this amount would be turned into sovereigns there.

4667. Let me ask you first about the gold produced in the country. I think some years ago—I have not the exact year in my mind—the Government of India withdrew its proposal for the opening of a mint at that moment because they found that all the gold produced in the Indian mines was under contract of sale to London. Do you know whether that condition of things no longer exists?—No, I could not say anything definite on the point, but it seems to me that, once we open the mint, the contract is bound to be terminated, and we will get that gold in our mints.

4668. Is that necessarily so? I presume that the mines have heavy remittances to make to London; their shareholders are in London. May it not pay them to remit their gold direct to London and tender it here?—It may be so. But they could arrange for these remittances easily by tendering the gold in India and getting payment against it in England through banks.

4669. Would you propose to charge any seigniorage on gold coinage?—No, nothing. Of course, we should have to charge something for refining the gold, but nothing in the way of seigniorage.

4670. Is there any refinery in India now?—No, I do not think there is one.

4671. Do you think, apart from the gold produced in mines, much gold would be brought out of hoards in consequence of the opening of a mint?—It may not be immediately, but it is possible that at times of stringency during periods of famine, after the country has been saturated with gold, gold ornaments will come out from hoards and be sent to the mint for coinage.

4672. Is gold taking the place of silver in hoards, whether in actual bullion or ornaments?—There is no definite information on the point, but I think there are some indications pointing to the fact that gold is gradually displacing silver in circulation, and also, naturally, in hoards.

4673. In your opinion it is desirable to encourage that?—Yes, I think so; at least, at the present moment.

4674. Notes are playing a very large part in the circulation of India at the present time, are they not?—Yes.

4675. And an increasingly large part?—Yes.

4676. Do you not think that there is a good deal to be said for notes as the most convenient and cheapest form of currency?—Undoubtedly notes are better in this respect than an actual gold coin.

4677. Is that not a little in conflict with what you were saying just now, that you wanted to increase the amount of gold coin in circulation?—The point is this: India is still an undeveloped country. It is natural that a great portion of the masses should prefer metallic currency in place of paper currency, therefore, for the time being, it would be advantageous to have an actual gold currency in circulation to displace the silver currency, but later on, as the country develops, the note circulation will probably increase and displace the gold currency.

4678. As an ideal, then, you look forward to the supersession of metallic currency by notes as far as possible?—Quite so.

4679. But in the meantime you would prefer to see gold taking the place of a portion of the silver?—Quite so, because, in fact, such a substitution would reduce our currency difficulties. The less the amount of rupees we have in circulation, the smaller would be our liability at times of crisis when we may be called upon to support exchange.

4680. I want to know how exactly, in your opinion, the amount of rupees in circulation, provided they are not in excess of the demand for currency, affects exchange, or your difficulties in regard to exchange?—What happens is this: The amount of rupees in actual circulation at any time must be equal to the demand for the rupees themselves, but at times there may not be a demand for the total volume of rupees which has found its way into the hands of the public, exactly as happened in 1908, and some portion of the rupees are returned to our currency offices, and either gold is taken in exchange or these rupees are, so to say, sent out of the country by being put into our currency offices, and gold in London taken against the rupee payments in India. Now if we had a larger circulation of gold and a smaller circulation of rupees our difficulty at that stage would be considerably reduced, because then, in a crisis of that sort, the gold itself would go out of the country, or, on the other hand, there would be a smaller import of gold into the country for hoarding, arts and manufactures.

4681. If you had a large amount of gold in reserve would not that serve exactly the same purpose?—Yes, but the point is this: We will have to go on gradually increasing this reserve, because, as there is an increased demand for metallic currency we shall have to issue more rupees; we shall have to coin more rupees and issue them; and we shall have to increase the gold reserve to meet our liability in respect of these additional rupees. On the other hand, if we can reduce the demand on us for rupees and can meet it by an increased circulation of gold, of course the whole machinery will go on automatically.

4682. Supposing as long as trade is expanding, and the prosperity of India is increasing, the demand for rupees goes on increasing, and then comes a check, you do not suggest that the whole of the new rupees which have been put out in the course of the prosperous years would come back to the Treasury, do you?—No, not the whole of them necessarily, but probably a good portion. In fact, there will be a repetition of what actually happened in 1908.

4683. But even in 1908 a very small proportion of the issues which had been made came back?—That is so, but then the risk would be increased if we went on adding to the volume of the rupee currency.

4684. Do you think it has increased in proportion to the increase of the currency?—No, it cannot be quite proportionate, but still there would be some increase in the risk.

4685. I suggest to you that as against those contingencies you must keep a gold reserve; and with that I think you agree?—Yes, that is so.

4686. I should say you must have gold in the first instance, and you must have that gold either in circulation or in the reserve or probably in both. But I would suggest to you that it is more economical and quite as useful to keep it in the reserve as to keep it in circulation?—Yes, that is so. But then, on the other hand, if we do that and go on adding to the rupee currency, it means that we increase our liability to convert the rupees into gold when the necessity for doing so arises. We can certainly meet that liability by keeping a large amount of gold in reserve, but, instead of taking all that responsibility on Government, I think the other plan of having a large amount of gold in circulation and making gold displace rupees would make the system more automatic, and reduce the responsibility of Government in the matter.

4687. Are you treating it as being in practice obligatory upon the Government of India to give gold for rupees whenever asked?—It is practically obligatory. Of course, in theory there is no obligation, but at the time of the last crisis I think the Government of India found that it was desirable to give out gold in exchange for rupees so long as it had got gold, and I think it is necessary to do so at times of panic so as to avoid creating any suspicion in the minds of the people about the currency policy of Government.

4688. Would you think, therefore, that the time had come for the Government of India to undertake an actual legal obligation to give gold for rupees?—I do not think it is necessary to go so far at present.

4689. (*Lord Faber.*) There is one question I should like to ask you. It is your opinion, I think, from what you have said, that India is using world's money when she uses gold in her circulation—money available for all purposes; but, when rupees are used, India is not using world's money. Do you agree with that?—Quite so.

4690. (*Chairman.*) What is the use of the gold in the Paper Currency Reserve in India?—Its main function is to supply gold to the public whenever they may demand it; that is to my mind its primary function. Of course, it is used for other purposes; a portion of it is nowadays held in England as a reserve from which the Secretary of State can purchase silver expeditiously at an emergency, or from which he can finance the home Treasury if there is any prolonged falling-off in the demand for Council bills at the specie point rate.

4691. It follows, I think, from what you said that you hold rupees in the Gold Standard Reserve in order to supply the public in India with rupees when they want them, and you hold gold in the Paper Currency Reserve in order to supply them with gold when they want it?—Not quite, because we have rupees in the Paper Currency Reserve which we issue to the public when they want rupees. The rupees in the Gold Standard Reserve constitute a second line of defence. They are a margin. In fact, the inflow and outflow of rupees to and from the Currency Reserve is more or less automatic, and it may happen, as it actually happened in the past, that at times of extreme stringency the rupees in the Currency Reserve may prove insufficient. Then we have a second line of defence, and we can make use of it.

4692. Have you ever considered whether it would be under those circumstances desirable to amalgamate the two reserves?—That would destroy the character of the special reserve. For, if we amalgamated the two reserves and kept the total sum in the Currency Reserve, it would be liable to fluctuations with reference to the ordinary exchange operations of the Currency Department, and it may so happen that at times the bulk of the rupees may be taken away, and there may not be a sufficient stock left to meet immediate demands. But if we keep a certain amount of rupees in a special reserve, then as soon as the rupees in the currency are more or less exhausted, and we start drawing on the silver in the gold reserve, it is an automatic indication to the Government that it must coin rupees expeditiously.

4693. You mean that if they were working with only one reserve the facts which were passing under their eyes might escape their notice?—It is possible.

4694. But the fact that they have to go to the gold reserve for rupees is an alarm-signal?—Quite so; it is an automatic alarm-signal.

4695. Given the use, as you have explained it, of those two reserves, do you see any other reason than that for keeping them separate?—No, there is no other that I know of.

4696. Do you see any advantage in putting them together if it could be done?—Apart from the objection based on the advantage of having a special rupee reserve, I do not see any other objections to keeping them together.

4697. As regards the Gold Standard Reserve in London, a portion of it is in gold and a portion of it in securities. Have you any views as to the amount which ought to be kept in gold?—I think that a fairly large amount ought to be kept in gold. I believe the Secretary of State has recently agreed to hold five millions in liquid gold. Possibly that is a sufficient sum to start with, but my personal opinion is that it would be better to have a higher amount.

4698. Would you indicate any total for the Gold Standard Reserve as a whole or for the gold portion of it in particular?—As regards the Gold Standard Reserve as a whole, I think we ought to keep not less than 25 millions. When we have reached that limit of 25 millions, we might then review the whole position, and might consider whether a portion of the coinage profits might not be diverted for some other purpose. But until we had reached that point of 25 millions, which I think was clearly indicated as a necessary reserve by the experience of 1908, I do not think we ought to touch the further accumulations in the gold portion of the reserve.

4699. Do you mean to keep the whole 25 millions in actual gold?—No, that figure I mean to be the total amount of the reserve.

4700. As regards the actual gold, you think five millions hardly sufficient?—Hardly, I think. Probably 15 millions would be a suitable sum. I think during the last crisis we lost something like 18 millions, and we were lucky that the crisis did not synchronise with a very great stringency in the English money market itself, and a large fall in the price of sterling securities. If that had been so we should have been obliged to sell our sterling securities at a very great loss.

4701. Do you think it is fair to take what happened in 1907–8 as a measure of, shall I say, the greatest danger against which you can reasonably be called upon to provide?—That is the only experience that we have got to guide us, and for the time being I think we must depend upon it. We may have to alter our views on the subject when we are confronted with another crisis.

4702. It was put to us the other day by a witness, and I think you have just indicated that you agree, that it would have been far more serious in 1907–8 if what that witness called the storm centre had been in London instead of in New York?—I certainly agree with that view.

4703. Again, there was famine in India in 1907?—Yes, that is so.

4704. Was it a bad famine?—It was not a very bad famine.

4705. You could easily conceive of a worse famine?—Quite so.

4706. I think there was no war that year?—No.

4707. You might have circumstances, therefore, much more unfavourable to India than they were in 1907–8?—It is quite conceivable that it may be so.

4708. That would seem to imply that you should provide for something more than what was actually proved to be required in those years?—That is so.

4709. Have you ever had occasion to consider whether the Gold Standard Reserve should be brought under statutory regulation?—My personal opinion is

that at the present moment at any rate it is better not to bring this reserve under statutory regulations.

4710. I think on one occasion, and on one occasion only, money has been diverted from the Gold Standard Reserve for expenditure in India?—Quite so.

4711. The Government of India I think did not approve of it?—That is so.

4712. And it has not been done since?—No.

4713. Do you wish to say anything on the question of a State or central bank for India?—No, I do not want to offer any opinion on the point unless any particular question is asked me.

4714. There is one other question I want to put to you. It refers to the coinage of gold in India. Supposing that were to be decided upon, have you any view as to what the coinage should be?—I certainly think the coinage should be the sovereign, the coin of international trade. If that is impracticable, then, of course, as a last resort I would fall back on a special coin for India.

4715. You are aware that if you want to coin a sovereign you have to have a special mint under the supervision of the British authorities?—Yes.

4716. And that it is a rather expensive proposal, therefore?—I would, nevertheless, go to the length of incurring that expenditure.

4717. (*Sir Robert Chalmers.*) As regards the tendering of gold at the assumed mint in India, that would turn to a very great extent on price, would it not?—Yes.

4718. As to whether it were cheaper and as to whether it fitted in with the arrangements of the mine-owners, with agents, as regards commission, and so forth; there would be all those questions?—Yes, quite so.

4719. But ultimately it would turn on price?—Yes.

4720. Taking price a little further into detail, if, following the Australian precedent, there were a mint charge in India, that would militate, through the price, against the arrival of gold at the Indian mint as compared with its coming to London, which is a free mint?—Quite so.

4721. (*Sir Ernest Cable.*) I think it would assist the Commission, in considering the question of increasing the elasticity of the note issue, if you could tell us how these notes are issued. Are they issued in large parcels to Mahájans and local bankers or do the people themselves come and take the notes in small quantities? Do you happen to know what the habits of the people are in that respect?—From the currency offices?

4722. Yes?—The issues are mostly in large parcels, and the paper currency which filters to the Mofussil mainly finds its way there through the banks.

4723. So that they are issued through the banks, really, and the native Mahájans, and so forth?—Yes.

4724. (*Mr. Keynes.*) Are there currency chests at all district treasuries?—There are currency chests at most of the surplus ones; I may say at all the surplus ones. The treasuries may be divided into three main classes. There are the deficit ones, *i.e.*, those which do not collect enough revenue to pay the charges at that particular treasury; there are some which just sufficiently pay their way, and there are the surplus ones. There are currency chests at all the surplus treasuries; there are also currency chests at most of the deficit treasuries, particularly those which are located in out-of-the-way places, where it would be difficult to send remittances regularly month after month, and it is a convenient arrangement to send a big remittance at a certain period of the year, to keep the money in the currency chest, and to issue portions of it to the Treasury from time to time to meet requirements.

4725. Is that also true of sub-treasuries?—No, as regards sub-treasuries it is unusual to have currency chests.

4726. When a branch of a Presidency bank takes over some part of the work of a district treasury I suppose the currency chest remains untouched?—The Bank of Bengal usually maintains currency chests for Government at these places, but the Bank of Bombay has never undertaken this obligation, and at all the places where we have a branch of the Bank of Bombay doing Government Treasury work the Government maintains a separate currency chest.

4727. When the bank maintains the currency chest does that simply mean it keeps it in its vaults, or does it mean more than that?—That is all it does.

4728. It merely safeguards the rupees?—Yes.

4729. It takes over no other function?—No.

4730. It does not actually issue notes against rupees?—No.

4731. It is merely the safeguarding of the rupees that it undertakes?—Yes.

4732. I understand that the Government economises over remittances to a very great extent by using the currency chests instead of sending balances backwards and forwards?—That is so.

4733. It releases money out of one currency chest and puts it into another?—Yes.

4734. When a Presidency bank takes over the Government balances are the facilities of the currency chests allowed to the Presidency bank?—I do not quite understand the question.

4735. I mean can a Presidency branch bank, in a place where there is a currency chest, cash notes out of its currency chest as freely as the Government would, and so remit by those means?—The ordinary currency chest does not actually cash notes. If the branch bank at such a place wants more coin it applies to the Accountant-General of the particular province, and he may or may not give the bank more coin from the currency chest. But the usual practice is that a branch bank is allowed to take over the coin in the currency chest at such a place on payment of a certain amount of premium—it is usually a small premium—to the Accountant-General.

4736. So that the branch bank which takes over the Government balances has not quite the same facilities of remittance as Government had, because it has not full control over the currency chest?—So far as the Government balances go, the facility is the same. If there is any surplus, the Accountant-General will ask the Presidency bank to make a transfer from the Government balance at its branch to the currency chest. Then again, if the Accountant-General finds that the Government balance at the branch bank is running short he will at once order a transfer from the currency chest to the Government account at the branch bank. Of course, the Presidency bank does not get the same facility so far as its private balance is concerned, but the Accountant-General always gives it the first choice of the accumulations in the currency chest at such places, charging it with a small premium. He also usually hands over to it the entire surplus Government balance free of charge, if it makes an opposite payment at some other bank or at its head office.

4737. About how much is the premium?—It varies between $\frac{1}{16}$ and $\frac{1}{8}$ per cent.

4738. If there were to be some system of a Central bank managing the note issue I suppose it might possibly be profitable for that bank to have branches where it is not now profitable, for this reason, that they would be able to use the currency system for remittances to the same full extent as the Government now use it?—Quite so. If it is practicable to have a State bank which will relieve Government of all its responsibilities as regards currency and banking, that sort of thing would be possible.

4739. I mean at present there is only a very partial economy effected when the branch bank takes over the Government balances, because there is a great deal of semi-banking work which still remains in Government hands?—Not exactly. The currency work certainly remains in the hands of Government, but not semi-banking work.

4740. No, the currency work remains in the hands of the Government?—Yes.

4741. Can you explain as fully as possible the extra-legal facilities which are given for the encashment of notes? I understand the public can actually demand encashment at the place of issue or at the Presidency town office, but that you give other facilities outside the law when it is convenient. Can you outline the nature of those facilities?—What happens is

this: At the District Treasuries facilities are given for the encashment of currency notes so long as there is sufficient coin in the Treasury available for the purpose. Apart from this arrangement we have at certain important centres what is called a Currency Agency. We have one at Allahabad, we have several in the Punjab, we have one I think at Mandalay, and I believe we are about to open one at Delhi. These Currency Agencies issue notes, which usually are given a distinctive mark, for circulation among the public against a deposit of coin in that particular agency. The notes which are thus issued from the agency are freely encashed at that agency, other notes being also encashed so far as it is found possible to do so without any inconvenience. That is the other extra-legal facility.

4742. In practice are they nearly always able to do that or not?—I should say that the facility given is a substantial one. They are often able to cash the notes at the more important treasuries.

4743. I mean is it your impression that the public can place reasonable reliance on being able to cash them or not?—Yes, at almost all the important treasuries they can, I think, rely on getting a currency note cashed at the Treasury.

4744. Are currency notes ever cashed for the convenience of the public at sub-treasuries?—No. The nature of sub-treasuries is different. They are mostly collecting centres where the revenue is collected. A sub-treasury does not make any payment of its own motion. If the district treasury issues a sort of cheque on it to make a payment in any particular case it makes the payment from the revenue collected by it, but no cash is ever sent to a sub-treasury to meet any particular payments, and a sub-treasury cannot cash currency notes.

4745. But I suppose a sub-treasury has rupees in its chest which have got there from taxation?—Yes.

4746. Is there any reason why, when those rupees are in excess of its probable outgoings, it should not use them to cash notes?—We would have to maintain a larger establishment at the sub-treasury. We would practically have to convert the sub-treasury into a regular treasury.

4747. There is no other objection?—No, none.

4748. If that were done it would mean that there would be some sort of facility for encashment of notes at 1,500 places instead of 300?—Yes.

4749. Has it ever been considered whether that is practicable?—It has never been considered, for the reason that the sub-treasury is always looked upon as a centre for the collection of revenue. It has no other function, practically.

4750. Can you explain to me as to what sort of extra-legal facilities are given for the supply of gold?—There, again, it is the same thing. So long as a treasury has got a supply of gold it issues it freely to anybody who may want the gold. When there is a large supply of gold at the currency offices, the Comptroller-General and the Accountants-General usually keep the various treasuries where gold is in regular demand properly supplied with gold.

4751. They do send gold on purpose in order that it may be available in order to give the public extra-legal facilities?—Quite so, so long as they have a large stock of gold.

4752. Do they send rupees for the same purpose?—Yes, they have to.

4753. I mean they do not merely give the public extra-legal facilities when the stock of rupees has got very high; they do send rupees on purpose in order to give them extra-legal facilities?—The Government tries its best to meet the public demand for rupees, and it often concentrates rupees from various places where there is not any large demand for them to places where there is a large demand, but in such cases what usually happens is this: The banks or the big firms get hold of these rupees by the purchase of supply bills or transfers by paying a small premium to the Accountant-General.

4754. Were the extra-legal facilities for gold given with a view to getting more gold into circulation?—Yes. That is so. When we have got a large amount of gold in our hands we try to give special facilities to get it into circulation.

4755. You deliberately send gold to places where you think it may be wanted in order that more gold may get into circulation?—Yes, that is so.

4756. (*Mr. Gladstone.*) You referred to the treasuries numbering 1,500. As a whole could you give us any idea of the proportion of the Government balances in those 1,500 treasuries as against the 300 district treasuries?—I am afraid I could not give you any.

4757. Roughly?—No, I could not.

4758. Would it be half?—I could not say.

4759. Perhaps you could get it?—Yes.

4760. (*Chairman.*) Will you be able to get the information here?—No. In fact, I tried to get it here, and failed. But if the information is wanted, I could certainly telegraph to India and get the information; I could get it, say, for one particular province.*

4760*a*. (*Mr. Gillan.*) But it must vary very much at different times of the year?—It must vary enormously.

4761. (*Mr. Gladstone.*) I mean an approximate proportion. This very convenient system of the currency chest which exists at the district treasuries does not apply to sub-treasuries, and the object of my question was to see whether that might not be extended?—Of course, the arrangement is that as soon as any large sum accumulates at a sub-treasury it is immediately withdrawn to the district treasury, and, except in months when a large amount of land revenue is collected, January, February, and March, very little actually remains in the sub-treasuries.

(*Mr. Gillan.*) I may say that these are little places twenty miles away from headquarters, and money is being brought in regularly once a week or so. It is not retained there.

4762. (*Sir Shapurji Broacha.*) I suppose Government tried to do its very best to push gold into circulation between 1900 and 1907?—Yes, they made an effort.

4763. Until the gold circulation or the gold sovereign went down to a discount at one time?—I have no information on that point.

4764. Government tried its best to put gold into circulation for seven years until the exchange crisis came?—Yes.

4765. I suppose it was an experiment to see how far the pushing of gold would help exchange during a time of crisis, but the crisis was not helped by gold coming out; is that so? After forcing gold into circulation among people for seven years until gold went to a discount, the crisis came, and gold did not come out to help exchange?—As I said, my view is——

4766. No, it did not come out?—Quite so.

4767. Instead of coming out, a further four millions were absorbed?—Yes.

4768. And you say that the four millions might have helped in not bringing out more gold from England or from outside?—Quite so.

4769. Are you sure that that is the only cause, or was it because gold had appreciated, and they wanted more to put into hoards in place of rupees? It only displaces the rupees, nothing else?—I am afraid there is no definite information about that.

4770. So that experience does not give any encouragement that pushing gold into circulation will help exchange?—Does it naturally follow? Even assuming your view is admitted to be correct, when the country is saturated with gold, then the gold in the hands of the people is bound to help Government in an exchange difficulty.

4771. Do you know that the country was then saturated with gold, that there was 300 millions in all imported — accumulated gold — and although the Government did its best to push the circulation for seven years, yet none of that accumulated gold came out; so it does not support your theory that if more gold is pushed into the country it will help Government in the day of its distress?—I am not sure if that is true. You say that gold displaced silver in hoards.

* The figures are being obtained from India, and will be printed as an appendix to the Final Report.

Supposing we reach a point when there is no more silver in the hoards to be displaced. When that state of saturation is reached, the gold in the hands of the people is bound to help Government in times of exchange difficulties.

4772. How could you arrive at a day when there are no more rupees? At present there are more rupees in the country than gold?—That is so, and for that reason I say——

4773. You say that if you push currency gold into circulation now it will be a help in the future?—Yes.

4774. Supposing the Government were to give as much gold as was wanted, and supposing a time like 1907 came, and the Government stopped issuing, would that not create more want of confidence than to say to them before, "We will not give you all that you want"?—When the stage I am referring to is reached, Government will not have to tell them that it will not give them gold.

4775. Government has to say, "We have no gold," just as they had to say in 1907. You stopped then for three years; do you not remember that?—That was because we had no gold.

4776. Does not that fact create more want of confidence, by refusing to give them gold when they want it, than it would to tell them before, "We will not give you the gold that you want"?—The point is this: We are now going on accumulating a large amount of gold, and, if we supplement that by trying to substitute gold currency for silver currency among the people, the result will be that, when a second crisis comes, there will be in the first place a smaller amount of rupees which will come out from the hoards.

4777. That is your conjecture of what would happen, but it does not seem reasonable from the past; at least, the past has not given any encouragement to go upon?—We have had experience of only one single occasion, and then certainly the gold circulation among the people had not made any large progress, nor had we any large gold reserves in our hands.

4778. I say what has happened in the past does not encourage forcing gold upon people?—I do not see any reason why that should discourage us.

4779. Because the people did not bring their gold out?—That is because the country was not saturated with gold; that is my point.

4780. Did I not say that there is more gold in the country than you will receive for the next 10 or 20 years? India, as they say, is the sink of gold?—That is so, but what is happening is——

4781. You cannot say that there is any encouragement for the pushing of your policy. You must ground your views on the past: the future is conjectural?—My point is this, that we have not sufficient opportunity for judging whether the country would have helped us if it were properly saturated with gold.

4782. That is your conjecture. Now let me deal with what you said about a mint. Is it a necessity or a sentiment?—I consider it mostly a necessity.

4783. Do you know that South Africa is the home of gold production?—Yes.

4784. There is no mint?—I do not know. Possibly the development of currency ideas in South Africa is higher than it is in India.

4785. How is there any dissimilarity? They want gold in circulation. They have the same sentiment as the people of India about gold?—The difference is that in our country there is not quite the same confidence in a paper currency among the people as there is in other countries.

4786. Suppose that a mint were granted in recognition of sentiment—of course, you say it is a necessity—what gold would you bring to the mint? There is, as you say, the Mysore mine gold?—Yes.

4787. Do you know that two-thirds of that gold comes to England, whether you buy or do not buy gold in India? They want it for their profits here?—That I did not know.

4788. If you bring one-third of that gold to your mint, that is, three-quarters of a million, one-third less will come from foreign countries to satisfy the requirements of the trade, so that India does not gain much in gold?—I do not know much about the circumstances of those mines.

4789. I think you are mistaken in saying that there is no gold refinery; there is a gold refinery?—I doubt it.

4790. The mint refines gold if you want it and gives you a certificate which is accepted by the Bank of England?—I think they assay it, but I do not think they refine it; that is my recollection.

4791. They assay it. Of course, you are, for sovereigns, whatever may be the larger cost?—Yes.

4792. To keep up the same coin in the Empire?—Yes, quite so.

4793. I suppose if you use rupees from the Gold Standard Reserve in India you will have to earmark gold here for the currency if it is against exchange. You are drawn upon by the Secretary of State and you have no need to come upon the Treasury: you borrow instead; that is to say, you give from the silver in the Gold Standard Reserve?—Yes.

4794. Then the Currency Reserve will have to be augmented to that extent in England by placing gold in the Currency Reserve which is here?—No, not the Currency Reserve, the Gold Standard Reserve.

4795. No, you are mistaken, if you say it is from the Gold Standard Reserve—you will have to pay gold earmarked here to the Currency Reserve?—You have to pay the gold from the Currency Reserve to the Gold Standard Reserve in England, and against that you pay the rupees from the Gold Standard Reserve into the Currency Reserve in India.

4796. Suppose no bills are drawn against you, or anything like that, and yet India wants the rupees, you have to borrow from the silver portion of the Gold Standard Reserve and replace that by gold from the Currency Reserve?—I do not quite understand.

4797. The Secretary of State does not draw from the Treasury, and yet rupees are wanted from the Currency Department?—Well?

4798. And you have no more rupees to give?—Well?

4799. You borrow from the silver portion of the Gold Standard Reserve and pay into the silver portion gold from the Paper Currency Reserve?—Quite so. We can make the payment in India, but we should probably prefer to do it in England, because on such an occasion the Secretary of State usually sells Council bills in excess of the requirements of the Home Treasury.

4800. How would you benefit by taking some of the Gold Standard Reserve from here to India? I suppose it is said that a portion of it may be kept there?—I do not think I said so. I said that a portion of the Gold Standard Reserve is kept in India.

4801. (*Sir Robert Chalmers.*) You said the silver portion?—Yes, the whole of the silver portion must be in India. That is all I said.

4802. (*Sir Shapurji Broacha.*) You said that the Secretary of State does not interfere with the advice given to him by the Government of India usually: he weighs it and perhaps makes some suggestion?—Did I say that?

4803. You said that recommendations made by the Government of India are as a rule accepted by the Secretary of State with sometimes a suggestion that such and such a thing ought to be done, or something like that.

(*Mr. Gillan.*) In what connection?—Was it about taxation?

(*Sir Shapurji Broacha.*) Yes, and other matters.

(*Witness.*) What I said was, I think, that the Government of India make recommendations to the Secretary of State, and the Secretary of State has full discretion to accept those recommendations or not to accept them, or to place other suggestions before the Government of India.

4804. (*Sir Shapurji Broacha.*) But you said that there are no cases where the Secretary of State has not accepted the recommendations of the Government of India?—I do not think I said that.

4805. Then I will leave it. I want to ask you one more question. If you want to make a gold currency,

then you will give gold to whatever extent is required?—Yes.

4806. Would you require a gold standard or gold currency? I mean now, at the present time. Would you like in India a gold standard or gold currency?—We have the gold standard, and I want gold currency in addition, I would prefer to have gold currency in addition.

4807. Supposing the gold currency were given, it means that whatever gold is asked to be given must be given?—Does that necessarily follow? All you want is that anybody who takes his gold to the Mint will get back a sovereign in exchange.

4808. No, there is a difference between gold currency and a gold standard. With a gold standard you can refuse the gold, but with gold currency if you refuse to give a sovereign for 15 rupees you have failed to maintain your currency?—If that is so, all I want for the present is the gold exchange standard plus an obligation on the part of the Government to coin into sovereigns any gold presented for the purpose at a Mint in India.

4809. That is quite different. If you introduce a gold currency it means that the Government put themselves under an obligation to give sovereigns for the number of rupees tendered. That is a gold currency. We are now on a gold standard and you wish to have a gold currency?—No, if that is the meaning you attach to a gold currency I certainly do not want a gold currency in that sense at present.

4810. (*Sir James Begbie.*) With regard to the silver portion of the Gold Standard Reserve, on one occasion some years ago the Secretary of State drew against that reserve, which led to a protest by the Government of India. Do you remember that?—Yes.

4811. We have that in the correspondence. That process was repeated later on, in 1910 and 1911, I think?—Yes.

4812. Can you tell me under what circumstances the reserve was drawn upon at that time?—On our side we have not got much to say about the transaction. It was done expressly under the instructions of the Secretary of State. If we had not taken the loan, the Secretary of State would have been obliged to transfer gold from his Treasury to the Paper Currency Reserve or to the Gold Standard Reserve.

4813. That was in 1906?—Yes.

4814. But in 1910 there was no gold at that time, was there?—Yes.

4815. Was not the reserve reduced altogether by Council bill sales?—Yes, on that occasion upon which the silver portion of the reserve was reduced by an increase in the gold portion in England.

4816. That is what I mean: that part of the reserve was intended to supplement the reserve of the rupees in the Currency Department?—Yes.

4817. Was there any need to draw upon that special reserve in 1910 or 1911 to supplement the rupees in the Paper Currency?—No, it was not wanted for that particular reason. The point was that we had a large number of rupees in the Paper Currency Reserve, and at one stage I believe the Secretary of State thought that we might reduce the amount of rupees in the silver branch of the Gold Standard Reserve. So he invested about half the balances of the silver reserve in gold securities in England. Then there was some correspondence between the Government of India and the Secretary of State on the subject, and the silver branch of the reserve in India was eventually raised to the full amount of four millions.

4818. You cannot give us any further information about the reduction of the silver reserve from six crores to three crores?—That is all I can tell you.

4819. With regard to the gold position in 1908 in the Paper Currency Reserve, we have heard a good deal about the question whether gold held in India would support exchange. Can you tell us where the gold was issued in 1908? Was it issued at the Presidency towns or was it issued from the District treasuries?—A good portion of it was issued at the Presidency towns.

4820. And some of it up-country?—Yes.

4821. So far as it was issued up-country, that could scarcely be expected to be exported?—That is so.

4822. At a time like that do you think it is expedient to issue gold to the general public?—I think it is better to do it, because in the first place it would help to allay any suspicion about the intentions of Government to maintain its currency policy, and in the second place my view is, as I mentioned before, that any gold issued in that way would go to reduce the demand for the import of gold into the country.

4823. There is no gold coming into the country at that time?—No.

4824. Do you not think it is of more importance to retain gold when the exchange is adverse for the purpose of maintaining the standard?—The maintenance of the standard is undoubtedly the more important function of the gold in the possession of Government. At the same time, if we do not issue gold at a time of crisis we would immediately engender suspicion in the minds of the masses about the intentions of the Government with regard to the currency. In 1908, as soon as Government said that they did not want to issue gold, I believe there was an increased demand for it at the currency offices.

4825. That was in the Presidency towns?—Yes.

4826. With regard to the purchase of silver for coinage last year, can you tell us whether the plan which was adopted to finance this purchase, that is to say, by the sale of Council bills, was adopted at the suggestion of the Government of India, or was that left to the discretion of the Secretary of State?—I think the suggestion was made by the Secretary of State, and the Government of India did not object to it.

4827. In India the Paper Currency Reserves are kept entirely apart from the cash balances of the Government of India?—Yes, that is so.

4828. Do you know of any reason why that practice should not be followed in London?—I think the same practice is followed in London also, and that the portion of the currency reserve which is held in London is kept quite separate from the balances of the home treasury.

4829. But is it not the case that last year Council bills were sold against the currency reserve in India and the proceeds of those bills were put to the cash balances in London?—No, I do not think that would have happened. In fact, it cannot be done, because the Paper Currency Reserve is under law something quite distinct, and for that reason all the money which is held on account of the Paper Currency Reserve in England is specially earmarked.

4830. In the case of loans which it has been suggested might come from the Paper Currency Reserve, I assume that you refer to loans in India only?—That is so.

4831. Not loans in London from the portion of the gold reserve held here?—No. All I intended was that those loans should be given against an actual increase in the circulation of currency notes.

4832. (*Mr. Gillan.*) Something has been said about these currency chests. I only want to ask in order to make it plain: The object of establishing these currency chests is not to give facilities for encashment of notes, is it?—No.

4833. It is merely what we call a resource operation?—That is so. It is the function of the currency agencies, as I mentioned, to facilitate the exchange of currency notes.

4834. About the use to which gold held in India can be put in time of crisis, do you remember how much gold we had at the beginning of the 1907–8 crisis?—No, I cannot give the actual figure, but I have heard that we lost about four millions in India.

4835. Was that all we held at the beginning of the crisis?—Yes, that was apparently the case.

4836. What I wanted to get at was this: There was considerable discussion in the Government of India at the time, was there not, as to what should be done or should be allowed to be done, with this gold—whether it should be given to people who wanted it for use in the country or restricted to people who wanted to remit it out of the country?—Yes.

4837. Do you happen to remember anything of the drift of that discussion?—So far as I remember, the Government of India first wanted to restrict the issues to meet *bonâ fide* demands on the part of the people of the country for a gold currency; that is to say, they wanted to stop all issues which were clearly required for the purpose of export, and with this object they decided that gold was not to be issued from the currency offices to anybody in sums in excess of a certain limit at a time; it was probably 10,000*l.* at one time. Then I think eventually they thought that it would be safer to issue the gold freely so long as they had it, because their previous orders led to a rush for gold at the currency offices, and their limit was evaded by half a dozen men from the same bank going to the currency office and getting parcels of 10,000*l.* at a time.

4838. (*Mr. Keynes.*) May I ask a question? Are we to understand that at the first stage of the crisis the Government deliberately tried to prevent the export of gold and deliberately tried to force gold into circulation?—No, it was not exactly that. What the Government did was to prevent the gold which it had in its possession from going out of the country. That is all it tried to do. It certainly did not try in any way to force gold into circulation.

4839. But it would only issue gold to those who wanted it for circulation purposes?—That is so.

4840. And deliberately withheld it from those whom it suspected of wanting it for export purposes?—Yes, that is the position.

4841. (*Mr. Gillan.*) For that purpose it imposed a limit?—Yes.

4842. Is that limit still in force?—No, I do not think there is any limit in force now.

4843. Is it not the rule that any applications for over 10,000*l.* in gold shall be reported to the Comptroller-General?—They are probably still reported to the Comptroller-General, but so far as I know they are not reported for his orders. The Accountant-General can issue the gold, and then he reports it to the Comptroller-General for other purposes.

4844. What is your own feeling about these alternatives? Supposing that this monsoon were to fail, you would have a lot of gold in India. How would you deal with the situation? Would you make any distinction between the gold taken for circulation in the country or for remittances abroad?—No, I would not make any distinction.

4845. Would you simply give it out to the first comer until your gold was exhausted?—Yes, quite so.

4846. Assuming that the greater part of that gold were taken for some use in the country—perhaps I am repeating a question already put to you, but I want to make it clear—do you regard that as equally efficient in the support of exchange as gold that is sent home?—It may not be equally efficient, but I think it furthers the same object.

4847. The only reason I think you have given for that opinion is that *pro tanto* it goes to reduce the imports of gold?—Yes.

4848. Is that your only reason?—Yes, that is so; and, of course, there is the other reason that it would help to allay any panic or any suspicion in the minds of the people at large about the intentions of Government.

4849. That I understand. As a matter of fact, in a time of crisis or a bad season does the import of gold in one shape or another continue?—Taking the year as a whole I think it must continue, because some amount of gold must be absorbed for use in arts.

4850. For one reason or another?—Yes.

4851. The import of gold you think is always going on?—I think so.

(*Mr. Gillan.*) May we have a figure for that, Mr. Chairman? I think we must have it at some time. Can we have it now? I have no doubt we can get it from somewhere.

(*Chairman.*) Can the witness give us the figures? I do not mean at this moment, but can he hand them in?

(*Witness.*) I think I could.

4852. (*Chairman.*) The Secretary will get them.* (*To the witness.*) In reference to the question just asked you, do I understand that the import of gold which you expect to take place into India in a time of crisis, and which you think might be lessened or reduced by having a larger amount of gold in circulation, is an import of gold, not for currency or for exchange purposes, but as merchandise?—It may be for both purposes. If the people can get the gold required for internal circulation from the currency offices there may be a smaller demand on their part for imported gold for a similar purpose. Of course, in a crisis like the one we had in 1908, the demand for currency will naturally be reduced.

4853. (*Sir Robert Chalmers.*) May I ask one question as regards the location of the balances in London? In respect of the Gold Standard Reserve, I think I understood you to say that that is located in London in the interests of India?—Yes.

4854. You are very clear about that?—Yes.

4855. And as regards the raising of loans in this country, I think you expressed the opinion that every penny that can be raised in India is raised in India?—Yes. Of course, that is the view of the people on whose advice we depend when raising our loans in the Indian market.

4856. What is your main reason for keeping the Gold Standard Reserve in London? Would it be this sort of ground, that it is in London that the payments have to be made for which the Gold Standard Reserve exists?—Yes, that is so.

4857. Suppose you kept it in India you would not have secured that object?—Not exactly. Supposing we kept it in India, and then a crisis happened, and the Secretary of State was compelled to stop selling Council bills in India, then he would require money to pay the Home charges, and the Government of India would be compelled to ship its gold to the Secretary of State.

4858. It would be an extravagant method of doing the thing which you aim at doing by the better method which you described first?—Quite so.

4859. And in all those matters of the location of balances and the application of balances is it your own private opinion that the one object studied has been the interests of India?—I think so myself.

4860. (*Sir James Begbie.*) May I ask one question as regards the question asked by Sir Robert Chalmers? You said that if the Secretary of State could not sell Council bills they would have to ship gold. The Government can buy their own drafts against the Gold Standard Reserve in London, can they not?—I do not understand the question. It would be just the other way. In a crisis people would want to pay in rupees in India, and would want to obtain gold in London.

4861. Yes, but I am talking about the Government's own remittances. Supposing the Secretary of State is not able to sell drafts in London on India; in that event you said that the Government of India would have to send home gold, but would the same effect not be arrived at if the Government of India bought their own drafts against the Gold Standard Reserve?—I do not see exactly how it would help them in getting any money in England. The demand then, so far as the Government is concerned, is for more money in England, and in case of a crisis I do not see how the Government could get that money in England without actually shipping gold, if it kept the gold portion of the Gold Standard Reserve in India.

4862. In 1908 the Government sold bills in India against the Gold Standard Reserve in London?—Yes.

4863. The Government then did not buy their own drafts against that reserve, did they?—No.

4864. They could have done so if they had the money in India?—No. I do not quite understand the question. In 1908 what the Government did was this; they took rupees in India and gave drafts on London.

4865. That is to say, to the public?—Yes, to the public. If the Secretary of State wanted to take back those drafts it would not have helped him in any

* *See* Appendix XXIX., page 633.

way so far as the balances in the home treasury went. What the Secretary of State wanted was more money, and these drafts created a liability on him. They increased the payments from the home treasury.

4866. Yes, but the Gold Standard Reserve exists for the purpose of meeting a case like that, does it not?—I understand the assumption is that the Gold Standard Reserve was to be transferred to India. If the Gold Standard Reserve remained in England, of course the Secretary of State could have sold the securities of the Gold Standard Reserve. That would have depleted the money in the Gold Standard Reserve temporarily But I think the point was, if the money in the Gold Standard Reserve was transferred to India, what would happen in the case of a crisis.

4867. (*Sir Robert Chalmers.*) That was exactly the point I wanted to put to you—as to the policy. You answered that in the interests of India it was desirable to keep the Gold Standard Reserve here?—Quite so.

4868. The balances were dealt with in the interests of India here?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

TWELFTH DAY.

Thursday, July 10, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. JAMES N. GRAHAM called and examined.

4869. (*Chairman.*) I think you represent the Bombay Chamber of Commerce?—Well, I can scarcely say that I represent the Bombay Chamber of Commerce. I believe they were good enough to give my name, but my connection with the Chamber of Commerce is of very old date.

4870. Will you give me very briefly, so that we may have it on the record, the nature of your association with India?—It is now, I am sorry to say, about 45 years since I went to India, but I have been closely connected with commerce all that time, and, in fact, I may say that my firm is one of the largest in India, and has very large financial transactions both as regards exports and imports.

4871. I think you wish your views to be taken as personal to yourself and not to be considered as delivered on behalf of your firm?—That is so.

4872. Are you in favour of the establishment of a central or State bank for India?—I assume that the constitution of such a bank has been carefully considered and is looked upon as not only practical but practicable; and it is in that sense that I would answer any question put to me on that subject. Provided that it is practical and practicable, I certainly would be in favour of its institution being very fully considered.

4873. What is your idea of the business which such a bank ought to transact?—I am not a banker, but I should say that the Government of India, like anybody else, requires a banker, and should not be its own Bank. For instance, to become money-lenders, that is to say, in other words, a Bank, is not a suitable function for a Government. That is the view I take of it, and therefore a Bank would be more suitable to do the banking business of the Government.

4874. In the banking business you would include, I understand from what you have just said, the loaning out of any balances; that is to say, you contemplate that the Government of India would keep its balances with the bank, and that the Bank would use them as they thought fit?—I am not intimately acquainted with how the Bank of England carry on such operations, but I should regard these balances as being in very much the same position as the public deposits in this country in the Bank of England.

4875. Would you give to the bank the management of the currency—the note circulation?—I should think that would naturally become one of its functions.

4876. And the exchange business, or that part of exchange business which is at present done by the sale of Council bills?—Yes, I should say so, under instructions from the Council.

4877. Do you contemplate that it would do general banking business throughout India?—That, of course, is a very big question. I have thought a good deal of how it would be constituted in India, and I should think there were considerable difficulties connected with that, not insuperable, but at any rate difficulties that require very great consideration.

4878. You contemplate, I understand, that the Government would be represented on the board of directors of the bank?—Yes, I should think so.

4879. But the majority of the directors would be representatives of the shareholders, and unofficial?—Yes, certainly.

4880. Do you think such a bank should be formed by some amalgamation and possibly extension of the three Presidency banks, or that it should be an entirely new institution, so to say, superimposed upon them?—What passed through my mind was that it would be a new departure absorbing the Presidency banks.

4881. Do you think that the local needs of the people of India would be as well met by one centralised institution of that kind as they are by the three Presidency banks?—I should think that the Presidency banks would still continue to perform their functions within their spheres, and that the central bank, wherever its headquarters might be, would have a directing power. But I cannot talk as a banker; I can only talk theoretically on subjects of that kind.

4882. In that case you think that something in the nature of a local board, at any rate, would be required in the separate Presidencies in order to provide sufficient knowledge?—Yes, I should think so. India is too large a country for the concentration of all the executive work at one centre.

4883. You have already said that your first reason for desiring, if it were practical, the establishment of such a bank is to relieve the Government of banking duties?—Yes, and not only to relieve the Government, but to relieve the Government officials of duties which I do not think are within their sphere.

4884. Apart from that, have you other reasons why you think that the establishment of a central

bank would be desirable?—I do not know on the spur of the moment that I can suggest anything.

4885. I will ask you one or two specific questions. Do you think that such a bank would secure in the form of deposits much of the treasure now hoarded in India; in other words, would it get out of India an addition to the banking capital of India?—That entirely depends. I should say that it came within the functions of the Presidency banks, under the direction, of course, of the head Bank, to organise a system throughout their spheres of establishing credit, because in India it is a matter of confidence and credit to get these hoards out. A native will not bring his money to a bank unless he is absolutely confident that he will get it again. That has been so from time immemorial, certainly for the last 40 or 50 years, to my knowledge. The natives put away their money in the ground because they can find it there again.

4886. As far as they are prepared to bring out their money at all and entrust it to anyone, do you think that want of confidence in the Presidency banks prevents their doing so at the present time?—I cannot say at the present time, because, except as a visitor, I have not been closely in touch with India for a good many years, but I certainly think that it is the case that natives will not readily trust their money to anybody else except to themselves.

4887. But you think if a State bank were established they would have sufficient confidence in that to entrust their money to it?—I think they would; and what I have in my mind is the Scotch banking system, which is a wonderful illustration of what can be done throughout a country by local institutions which get the confidence of the surrounding people.

4888. I was wondering whether the mere fact that the bank was called a State bank and had certain intimate relations with the Government, including at least one Government director on the board, would appeal to the native mind as giving a security different in kind or amount from that which was given by such old institutions as the present Presidency banks?—I think the fact that it was a State bank might. I do not think the personnel would come before the people depositing their money, but the fact that it was a State bank would certainly give confidence, and that confidence would grow when they found that they could take their money and get it whenever they wanted it again, and get it with something a little more than they had put in. Confidence would grow, but it would take time, no doubt.

4889. I think you said you would transfer to such a bank, if it were established, the exchange business, so far as it dealt with the sale of Council bills and transfers. That is so, is it not?—Yes, that is so, because I have always thought that the Council drafts might be regulated, not only for the convenience of the Government, but for the convenience of the general public. I put some views of that kind before Lord Salisbury so long ago as 1876—it is an old story—and suggested that the Council drafts should be allocated more or less throughout the year, and available throughout the year, to meet what were found to be the general requirements of the trade, &c.

4890. I will return to that in a moment, but may I first ask you whether you would allow the State bank to compete with the exchange banks, for general exchange?—No, I should say not.

4891. You would confine it to drawings to meet the needs of the Secretary of State?—Yes.

4892. If it was decided to establish such a bank, you have already told us how you would deal with the Government of India balances, but suppose it were decided not to establish such a bank, have you any criticism to make on recent management?—It seems to me that what the Indian Government want in this country are bankers rather than a Bank of their own. They have certain disbursements to make; they have their ordinary disbursements, and disbursements for the purchase of silver, and for creating what may be absolutely essential and necessary as a Reserve fund. These are all disbursements which they have to make, or to provide for, and it seems to me that that can be done by a Bank more legitimately than by Government officials.

4893. But hitherto the Government have had to do it?—That is true.

4894. And, as you say, as long ago as 1876 you made representations to Lord Salisbury, then, I think, the Secretary of State, on the subject?—Yes, as regards Council drafts more particularly, which had been very badly managed previously.

4895. And following thereupon there was an improvement, in your opinion?—Three weeks after my letter went in, some of the changes suggested were adopted.

4896. Have you any further changes to suggest as a result of your later experience?—The only one which was not adopted—at least, I think it was the only one which was not adopted—was what I have already referred to—a kind of allocation of Council drafts over the year according to what might be considered convenient both for the Government and for the public.

4897. Is not that done now? I think it would be the contention of the Secretary of State that, subject to the necessities of the Indian Government, and to taking security as far as he can that he shall be able to meet them in the course of the year in which they fall due, he does manage his business in the light of the interests of trade?—I have no exception to take to the management as it has been carried on; we are talking rather of principles as to how it should be carried on than the practice which has existed. I should think probably it has been very well managed so far as the present system admits.

4898. You have no particular observations to make on the size of the balances in recent years, either in London or India?—I have not studied what these balances have been, but I certainly think that unnecessarily large floating balances kept in this country are not desirable under the circumstances; that the Government collects its taxes in India, and to transfer that money here and to keep it unnecessarily is not a sound system.

4899. Have you looked into the use of the balances sufficiently to say that in your opinion money has been unnecessarily brought here?—No, I have not.

4900. I presume you would agree that supposing the revenue turns out more favourably than is expected, and there is a considerable balance, it is reasonable for the Secretary of State to bring that balance to this side to meet capital expenditure for which he would otherwise have to borrow?—Yes, certainly.

4901. You would not recommend that a surplus should be distributed in the form of a reduction of taxation unless it were a permanent surplus, I suppose—unless it were one upon which you could count in subsequent years?—Would it not follow that in budgeting for the following year the Indian Government would either take credit possibly for another windfall of the same kind, or for what might be considered a permanent increase in the revenue of the country?

4902. Of course, in any particular circumstances it might be right to do it, or it might not; that would depend upon the particular circumstances. All I asked was, supposing that the Government felt that the surplus was a windfall, to use your own word, which would not be repeated, you would not recommend a remission of taxation which could only hold good for one year with the necessity of re-imposing a tax in the following year?—No. If I may speak from a business point of view, I would be rather inclined to put the windfall into a reserve.

4903. Is not that what the Secretary of State does?—Do you mean in investing it?

4904. Well, in using it for development works, for railways or irrigation?—I am entirely in favour of that.

4905. The reason why he has brought these balances—these large sums—over here is because in normal times, and without the balances, he is a constant borrower here. If, therefore, he has a windfall in a particular year, or in a series of years, could he make a better use of it than bringing it over here to meet

expenditure for which he would otherwise have to borrow? In other words, could he make a better use of it than using it to prevent the creation of debt?—Have I not answered that question already? The money would be there, whether it is in India or here, and available for that purpose, and it would be a matter of convenience, I should say, whether it was held in this country or in India.

4906. Suppose the Secretary of State had larger balances in India, or that there was a surplus in his existing balances, do you think it would be desirable for him to loan out the surplus in India in somewhat the same way as he has lent out temporary surpluses here in London?—No, I do not think Government should do that. I think that should naturally go through a Bank. Is not the system now that the Presidency banks receive the balances of Government?

4907. They receive a portion. They always have a good deal of Government money, but at the same time there is a good deal of money in Government treasuries at certain periods of the year, and it has been suggested that at the busy months of the year the Indian Government might lend that money on the Indian money market?—Would it not be better for them to let the Presidency banks have it? I was connected at one time with the Bank of Bombay—I think I was chairman at the time—and I remember, I do not know whether it was the Secretary of State or the Finance Minister, trying to corner the money market of India in order to raise the rate of exchange for Council drafts. That is not an incident which is likely to recur, I should think, but that is an actual fact.

4908. Supposing the Government of India made a practice whenever it could of lending additional sums to the Presidency banks in the busy season of the year; let us suppose that they had been able to do that for three or four years running, and then came a year of strain and stress in which they were unable to make any loan, what would be the effect of that upon trade?—In whichever way it was, the effects on trade must be very serious, but I do not see how it would make any difference that they had benefited trade at one time and that they could not do it at another time. Trade would have to look after itself.

4909. A suggestion has been made that if they had done it for two or three years trade would have come to count upon it, and when, after that period, it was not done, the effect upon trade would be much more serious and disastrous than if it had never been done at all?—I think trade would look after itself.

4910. I go to another subject. The Secretary of State has, of course, very heavy demands to meet in London, and they are growing as he borrows more money. Do you think he could lessen the strain by borrowing more largely in India? I do not know whether you can speak with authority upon that question?—I do not think I can speak with authority, but from my knowledge of India I should always advocate that, if loans can be raised in India, the money should be obtained there rather than in London.

4911. But you would not like to express a confident opinion as to whether he should borrow more largely than he has done in India?—No; there are much better opinions obtainable than mine on this subject.

4912. I gather from what you have already said that, assuming the Secretary of State is to deal himself with Council bills and transfers as at present he has to do, you favour his practice of selling, not merely to meet his own requirements, but as far as he can up to the requirements of trade?—No. I would not advocate his selling more than he requires for his disbursements and possibly for other purposes, such as, for example, if it were desirable to increase the reserve fund in this country.

4913. Taking his own needs in the widest way, you would say that he should sell to the extent of those needs, but no further?—Yes, that is the doctrinaire view which I would take. Whether or not a little elasticity should be allowed in that—whether he should sell at higher and higher rates—I am not prepared to say offhand. That is an open question; but certainly as a rule—there might be exceptions—I should think that he should sell to meet his own legitimate requirements.

4914. Do you think that they would be generally held in India?—I do not know.

4915. What is your objection to his selling to meet the needs of the trade in addition to his own requirements, if he can do it without inconvenience?—I think myself that trade had better look after itself, and that if the money that has been collected in taxes is through banking channels put at the disposal of trade that is quite sufficient.

4916. I think that you have always been in favour of the creation of a gold reserve?—Yes.

4917. And you thought that the creation of a gold reserve necessitated the restriction of the free coinage of silver?—Yes; in fact, I may say that I go back to the year 1876, when for some six years the great battle of the mono-metallists and the bi-metallists had been raging; and I do not know whether I was the first or not, but I then put forward the necessity of creating a gold reserve, and the consequent necessity of restricting the coinage of silver. I do not know that anybody else had proposed that before I did so myself.

4918. Looking back on what has happened since those steps were taken, you see no reason to modify the opinions you have expressed?—None whatever.

4919. In connection with these changes, I think you advocated the opening of a mint for the free coinage of gold?—Yes.

4920. And you recommended that the coin should be the sovereign?—Not necessarily the sovereign, but a coin identical with the sovereign.

4921. In weight and fineness?—Yes.

4922. Will you tell me shortly why you advocate the opening of a mint for the coinage of gold in India?—There is nothing novel in that idea at all. In 1835 the Government had dies for gold mohurs. I forget what the value of the mohur was, but I have one in my pocket. Again, in 1870, the Government, without consulting anybody, so far as I can remember, took it into their head that they were going to introduce, I suppose, bi-metallism into India, and they sent out the dies for 10-rupee and 5-rupee pieces. That was in 1870. There were, I think, only 30 of the 10-rupee pieces coined; I have one with me at present. That was the date when the great revolution took place both in trade and in money by the opening of the Suez Canal, and owing to the results of the Franco-German War, and so the dies were luckily put on the shelf, and were never used any further, because had it been attempted to put a 10-rupee piece in circulation it would very soon have disappeared.

4923. Where would it have gone; would it have been melted down, or hoarded, or what?—It would have been melted.

4924. But you think that a sovereign, or the equivalent of a sovereign, would not be?—If it is called a sovereign or a mohur, or whatever it may be, it has in India its market value. If you give it a fixed rupee value you get into all the difficulties of bi-metallism.

4925. I do not think you have yet told me why you want a mint opened, except that you said it was an old idea?—Merely for public convenience. I do not think that is a very important consideration. It is a matter of public convenience that anyone who has gold bullion in any shape might go to the mint and get it coined.

4926. Do you think that much gold would be taken to the mint in India if there were a mint?—I do not know. I think I rather founded my idea on the fact that preceding Governments of India had contemplated coining gold, and I did not know of any objection or difficulty. If there are difficulties or objections, then the sovereign is a very excellent coin, and might do all that is required.

4927. Is there any difficulty in getting sovereigns if people want them in India now?—I have only in recent years been there as a visitor, and now I have been very glad to find that sovereigns pass freely and are easily obtainable.

4928. Your desire, I gather, is to see a gold currency as far as possible established?—No, I do not think that matters very much. I should like to see it so far current that you could always change a gold coin; for instance, not to take a sovereign to get your ticket

at the station and be offered 10 rupees for it, as you were long ago.

4929. On the other hand, if people can be induced to use paper currency you see no objection?—No objection at all. In fact, I think that it is quite possible that if there were a Bank such as we have been talking about—this may be theoretical—there might be a gold paper currency as well as a silver paper currency.

4930. Would it be an unfair inference from what you have said that on the whole your reasons for favouring the opening of a mint in India are sentimental rather than practical? I do not say they are any the worse for it?—I do not admit that they are sentimental. I merely adopted them because I thought it might be a convenience to the public.

4931. As regards the gold standard reserve, have you any observations to make upon that?—Do you mean as to where it should be located?

4932. Yes; in the first place, where should it be kept?—I think the best place to keep a reserve is the place where it will be required for the contingencies against which it provides, and therefore I should say that is in London.

4933. Have you any view as to the amount which it should reach? It is fed from certain sources. Would you continue to feed it with the whole of those sources until it reaches some fixed amount?—I think that is a question upon which the Government should get the expert advice of bankers and others, which would be more valuable than mine.

4934. You would say, therefore, that it was also rather a question to put to bankers as to what proportion of the reserve should be held in actual gold and how the rest should be treated?—I should say that there certainly should be a reserve which is held permanently in gold on certain conditions, that is to say, it is held against certain contingencies, and only available for use should those contingencies arise.

4935. What are the contingencies which you contemplate specially?—For instance, we have had experience of famines, and difficulties, when it would not be desirable to force Council drafts on the market, and under such circumstances it might be desirable to trench on the gold Reserve.

4936. You would use it as a reserve for the maintenance of the exchange value of the rupee; is that your meaning?—Not exactly that, but to prevent enforced sale of Council drafts in this country.

4937. In an unfavourable market?—Yes.

4938. The effect of that enforced sale would be to depreciate the exchange value of the rupee, would it not?—Yes. I should think just now, for instance, supposing the Council were to offer 100 lakhs of Council drafts and make no restriction as to the rate at which they were to be placed. we should not see much of the fixed rupee.

4939. Am I right in saying that the object with which you originally proposed the gold reserve was the maintenance of the exchange value of the rupee?—No, I do not think that is the primary object of the reserve.

4940. What is the primary object, in your view?—The primary object is because the Indian Government has gold obligations to meet which it must meet, and if it only had silver with which to meet them it would be in a bad way.

4941. It is a reserve for the times when the circumstances of trade are such that it cannot get gold to meet its obligations here in any other way?—More or less, yes.

4942. I think you do not desire to express any opinion as to the amount which should be held in gold?—No, I think that is a question which would require a great deal of consideration.

4943. Have you any criticisms to make on the present practice in regard to the purchase of silver for rupee coinage?—I think that such transactions would naturally go through the bankers or the Bank, whichever it might be, that represented the Indian Government in London.

4944. But as long as there is no such bank you have no suggestions to make for improved practice in those matters by the Secretary of State?—I think the difficulty which arises there is in respect of what might happen—not what has happened or what is likely to happen, but as regards what might happen. For instance, with regard to the recent incident in which the Government were rather called to account for the way in which they acquired silver, I think in that case the transaction was carried out on good business lines, but, on the other hand, it is conceivable that under the conditions which exist it might have been badly or improperly carried out.

4945. You think, at any rate, it is an invidious duty for a Government to have the discharge of, and that it would be better done by a business institution?—I think so.

4946. (*Mr. Gladstone.*) You have referred to the objection to Government undertaking such very large banking and financial business, but the same thing applies, does it not, to the management and control of railways? The circumstances are such as almost to render this large Government superintendence essential. Would you go so far as to recommend that the railways should no longer be managed by the Secretary of State?—What I have had in view in anything I have said has been mainly in respect of financial transactions when Government officials are brought into direct contact with the public. As regards the control and management of State railways, these involve other considerations than those I have referred to. The executive and financial management of State railways necessarily devolves on the direct representatives of the Government.

4947. Then in the event of a State bank being established it would be necessary to have a great deal of Government control?—I should think there would be decidedly a certain amount of Government control.

4948. So that that would not really relieve Government of the responsibility of continuing to conduct these operations?—I think it relieves Government of the operations themselves. The Government do not become moneylenders themselves; it is an institution which does it. At present the Government are moneylenders.

4949. Take the control and management of the Port Trusts in India, where there are official directors. In the last resort the Government is held responsible for the policy and the direction of these Port Trusts, although they may only have one or two representatives on the Trusts; is not that so?—There is nothing in the nature of trade in that, either in money or other things.

4950. The management of docks is a large business operation?—I do not see how it would be possible to manage it otherwise. That is one of the functions which the Government exists for, I should think.

4951. (*Sir Shapurji Broacha.*) Were you in Bombay when the first Bank of Bombay was in liquidation?—No, I arrived just after; it was still in liquidation, I think, when I arrived in Bombay.

4952. I mean the first Bank of Bombay—the old Bank of Bombay. Were you there when it went into liquidation? Do you know the history of the first Bank of Bombay?—No; I arrived in Bombay about two or three years after it failed.

4953. So that you do not know anything about that, or its constitution?—No.

4954. Or whether the Government had shares in it?—No, I know nothing about that.

4955. Nor about the Government directors on the board?—No.

The witness withdrew.

The Hon. MONTAGU DE P. WEBB, C.I.E., called and examined.

4956. (*Chairman.*) Will you begin by telling us briefly what your Indian experience has been, so that we may have that on the record?—I first went out to India 23 years ago as a merchant, and my experience for the last 23 years has been as a merchant.

4957. I think you are President of the Karachi Chamber of Commerce?—Yes.

4958. Do you express their views to-day?—Yes.

4959. You speak for them as well as for yourself?—Yes.

4960. You have been good enough to supply us with a memorandum giving your views on the subjects referred to, and I propose to print that with your evidence, as we have done with other witnesses, or shall do with some other witnesses (*see* Appendix XXI., page 550). That being so, I will not ask you questions on what you have written there, but I will put some questions to elucidate what you have written. Your first point, I see, is that the total balances of recent years have been excessive?—Yes.

4961. Am I right in thinking that you attribute that to undue pessimism in budgetting?—Yes.

4962. You think that on the facts known to the Finance Minister at the time when he presented his budget he would have been justified in taking, and indeed ought to have taken, a more favourable view of the outgoings of the following year?—Yes.

4963. At the same time I suppose you will admit that it is very difficult at the beginning of a financial year in India to forecast what the revenue for the following year will be?—Very difficult.

4964. It depends in the main on the monsoon, I suppose?—Yes.

4965. That directly affects the general revenue?—Yes.

4966. And of course the railway revenue?—Yes.

4967. Would you agree that under those circumstances, having regard to the uncertainty, it is desirable that the Finance Minister should err if at all on the side of caution?—Yes.

4968. You would agree that it would be undesirable that, owing to having taken too sanguine a view of the prospect and having remitted taxation, he should have in the next year to re-impose the taxation remitted?—Yes.

4969. In regard to those balances, you suggest in your memorandum, I think, that they should have been used to reduce taxation; that on realising those balances the Government of India should either have reduced taxation or budgetted for large deficits, or suspended all borrowing and invested the balance in reproductive works?—Yes.

4970. Having regard to what you have just said to me, do you think that in the circumstances of those years a prudent minister would have remitted taxation?—Yes, I think so. I think that excessive caution was shown in preparing these budgets. I think considerably more risk might have been run without jeopardising the financial position at all.

4971. You think that, say, in the first of the years that you take, it would have been safe on the results of that year to reduce taxation in the following year; or in which year would you have thought that that could be done?—Yes, I think that with a million and a half surplus something might have been taken off.

4972. On the facts as then known; not looking back with your knowledge since acquired of the results of the later years, but upon the facts as then known?—I think so. I think in any year when there is a million and a half or two millions to the good the Government would be safe in budgetting to dispose of that surplus, not necessarily by taking off taxation, but perhaps by using the money instead of raising fresh loans—the customary and usual loans.

4973. Given the situation of India as it is at present, I think that you recognise that she needs large capital sums for development?—Very much so.

4974. Assuming however, that you had a surplus available, would you have advised the use of it for development purposes?—Yes.

4975. Rather than for the reduction of taxation?—Yes. The chamber of commerce in Karachi have pressed that course upon the attention of other chambers, and I think we also have drawn the attention of the Government to it; but I am not quite sure about that. We have certainly consulted other chambers on the question of utilising these large surpluses, particularly for railway purposes.

4976. So that, of the three alternatives which you suggest in your memorandum, the one which you yourself would have chosen would have been suspending borrowing and devoting the surplus to reproductive capital expenditure?—Certainly. May I in this connection draw attention to the fact that by a printer's error in the fourth line of paragraph 5 of my statement "15,000,000*l.*" has been printed for "5,000,000*l.*"? I intended it to be 5,000,000*l.* It should read, "And that a cash balance of, say, 5,000,000*l.* in excess" instead of "15,000,000*l.*"

4977. That shall be corrected. You said that your criticism is that the Government of India was unduly pessimistic?—Yes.

4978. Putting that on one side for the moment, assuming their calculations were reasonable at the time when they were made, would you then criticise their practice, or would you say that taking their assumptions—assuming their premises—they did, in fact, what you would recommend?—To a certain extent, yes.

4979. Having a realised surplus in each of these years they did not budget to swell the balance so obtained, but they budgetted to reduce it to something like the normal. Is not that so?—I think last year a surplus was budgetted for, as far as I remember. I seem to have a very distinct recollection of Mr. Gokhale over and over again pressing the attention of the Council to the fact that there was a surplus, and that he was positively certain that the surplus would be very much greater. I remember that distinctly. I think it was in last year's budget debate.

4980. Of the years you name, I think the only one in which they deliberately budgetted for a larger balance than usual was the year 1910–1, and the ground put forward for that was that they had heavy repayments for debt to make in 1912?

4981. (*Mr. Gillan.*) May I explain? What happened was that the Government of India, in the budget to which Mr. Webb refers, had budgetted for a surplus, I think, of a crore and a half, and what Mr. Gokhale said in the budget debate was, It is quite true you have budgetted for this sum, but I think you really are going to have a surplus very much larger. He said that in the budget debate, and I think that is what Mr. Webb meant?—That is what I have in mind.

4982. (*Chairman.*) That is really your original criticism, that they were unduly pessimistic?—Yes.

4983. That may be a question of temperament or wisdom?—Quite so.

4984. But I was going to intentions. Assuming that their programme had been realised and their estimates had been correct, you would not have found great fault with the results, would you?—If the estimates had been proved to be correct, no.

4985. As regards the use made of the large balances, in paragraph 8 of Part I. of your memorandum (page 552) you point out that the Secretary of State has lent to certain borrowers in London large sums of money for a period of several years in all?—Yes.

4986. And that those loans have always been made as short-term loans?—Yes.

4987. And that therefore the rate of interest which has been obtained has been less than would have been secured if the money had been lent for longer periods?—Yes.

4988. I want to ask you whether, in your opinion, the Secretary of State was wrong to lend only for short terms?—I think certainly wrong in view of the magnitude of the balances available.

4989. You think he ought to have adopted the policy of lending, say, for 12 months?—Assuming that he was correct in accumulating this money in the first instance, then the best policy if he was able to lend it would have been to lend it certainly for very much longer periods than three to five weeks.

4990. But assuming that he believed that his balance would be reduced by the end of the year to normal, would you still say that on that assumption he was wrong to make his loans for such short periods?—That question seems to me to take the form that assuming that he was right he was right; but seeing that every week he was withdrawing money from India, which he did not in the least require, in my opinion, he could not possibly imagine that he would run short of money. By the sales of Council drafts he is weekly withdrawing money, so that he would be an extreme pessimist who thought that he was going to run short of money, I think, in those circumstances, especially with 10 millions, 12 millions, or 15 millions of cash in hand.

4991. In your view the major portion of that money, or a large portion of that money, should have been left in India?—Yes.

4992. And as I understand, you would suggest that in India it should be lent out to lessen the stringency of the money market?—Yes, if this accumulation in the first instance was unavoidable.

4993. Might it not be right to accumulate it even though it were avoidable, India being a country which is in this great need of development of which you have spoken? The amount of development which you do is measured very largely by the resources which you can make available in any year?—In a sense, yes.

4994. If you have a prosperous year might it not be good policy for the Government of India to use that prosperity to carry out a larger policy of development than it otherwise would do?—Yes, it might conceivably be so. If it be laid down as a general policy of the Government of India that money shall be raised by taxation which is to be used as capital on reproductive works, there is a great deal to be said for that policy at times.

4995. As regards the balances which might have been made available in India, to whom would you have lent them?—In the first instance to the Presidency banks.

4996. Would you have gone outside the Presidency banks?—Yes.

4997. You mean that the Government of India should directly have lent to others besides the Presidency banks?—Yes.

4998. To whom?—There are many other banks. Some of the exchange banks which are operating in India borrowed some of this money in London. I have no doubt they would have borrowed it quite willingly in India, where it was, no doubt, wanted.

4999. Then you would lend it both to the Presidency banks and exchange banks if they wished to take it?—Yes.

5000. Would you lend it to anyone else?—Yes.

5001. To private borrowers?—Yes.

5002. Would you ask security from everybody?—Not necessarily everybody. I should ask security from most people, certainly.

5003. From all private borrowers I assume you would ask security?—I think so, yes.

5004. Would you from the banks?—Not necessarily. It depends upon the amount and the time, and the general situation. There are times when I should unhesitatingly lend the banks any amount of money on no security, and there are other times when I might conceive it advisable in the public interest to take security. It depends on the general financial circumstances, and possibly the political situation at the time.

5005. Does that mean really that it would depend upon your judgment of what the position of the banks was at the moment?—Yes.

5006. You are aware that the Presidency banks have considerable Government balances, I suppose?—Yes.

5007. But you think that without taking security it would be safe largely to increase the sums placed with them?—Yes, I think so.

5008. Do you contemplate that this money would be needed all the year round?—A large sum of additional capital?

5009. Yes?—Possibly not all the year round.

5010. Mainly in the busy months, the winter months?—Mainly in the cold weather, yes.

5011. So far as you took security, what sort of securities do you contemplate that the Government of India might accept against such loans?—All Government paper in the first instance, and securities of semi-Government institutions such as the Bombay Improvement Trust or the Calcutta Improvement Trust, and I do not know why selected Port Trusts, and even selected municipal loans, should not form a good security for temporary advances.

5012. Securities of public authorities generally?—Yes.

5013. You do not mean that the Government of India should lend on commercial paper?—No, not on commercial paper.

5014. What amount of money do you think could be usefully employed in India in that way?—It is very difficult indeed to say. Of course, the popular impression is that there is not very much scope for using very large sums of money. That is the popular impression, but as against that there always are, in my own practical business experience, large demands for capital, and there are always large opportunities for employing capital, and to me there are many opportunities which are not availed of. I can see many opportunities of using capital.

5015. Do you think they would use more than four or five crores in any normal year?—In the busy season?

5016. Yes?—It is very difficult to say. I could not say straight away, but I think the general impression, so far as my experience goes up to the present, is right, and that there is no large scope for the sudden engagement of enormous volumes of money such as there is in this country.

5017. It has been objected sometimes, and I think it is an objection which has had weight with the Government of India in the past, that even if they could see their way from time to time to lend money in the method which you propose, there would be a danger that the Indian money market and Indian traders would come to count upon that assistance from the Government, and then if in any year the Government was unable to give it, very serious consequences, something in the nature of a crisis, might follow. What do you say to that?—I do not think there is any ground for that theory in the least. I think that with a thoroughly suitable and satisfactory currency system you could always draw funds in large quantities from London in emergencies.

5018. So that you think it conceivable that there might be difficulty for the Indian Government to withdraw this money from the banks to which it had lent, or refuse to lend to them, but you think that London would be a reservoir out of which it could always supply itself?—Yes, in an emergency.

5019. Of course, as you have said earlier, the revenue of India is a very uncertain quantity, depending so largely on one factor, the monsoon?—Yes.

5020. You also are aware, of course, that the demands which the Secretary of State has to meet in London year in and year out are very large?—Yes.

5021. Do you not think there is something to be said for his practice of getting his money over here when he is certain that he can and not waiting till the last moment when he needs it, and when he may find a difficulty in transferring it?—My view is that he can take very much greater risks than have been taken in the past.

5022. You think in that respect also he is unduly cautious?—Dreadfully pessimistic.

5023. I want to turn for a moment to paragraph 9 of Part I. of your memorandum, where you point out that in 1910 the cash balance in hand on the 1st April was nearly 12,800,000*l.*, and yet in that year you say that the Secretary of State borrowed three sums of 1,000,000*l.*, 2,500,000*l.* and 1,500,000*l.* respectively?—Yes.

5024. I think your contention is that, given that cash balance, he ought not to have borrowed?—No, he ought not to have borrowed, I think.

5025. The borrowing, I think, took the form of a renewal of the bills which fell due?—I think it did.

5026. In that year, 1910, the budget estimate was for a closing balance of five millions odd?—Do you mean the Secretary of State's budget?

5027. I mean the budget of the Indian Government?—I cannot say from memory.

5028. I misunderstand you, perhaps; I mean the estimate of the India Office balance?—The Secretary of State's estimate?

5029. Yes. The estimate to which they were working was that the balance of 12,799,094*l.* on the 1st April would be worked down to a little over five millions on the 31st March 1911. Perhaps you would take it from me that that was their estimate?—Yes.

5030. That is the estimate which was framed as to what the position would be at the end of the year. You would say 5¼ millions, which is the figure which

he estimated to have, was too great a figure?—Two millions too great, I think.

5031. You would say that, although he had to pay off 2¼ millions of bonds at fixed dates besides meeting his ordinary expenditure?—Yes.

5032. You think with that in front of him it would have been safe for him to estimate for a balance of only three millions at the end of the year?—Certainly, I think so.

5033. You recognise that his decision as to paying off bills must be taken a little in advance of the time at which they fall due?—Yes.

5034. If he has to renew bills he must make his arrangements with the Bank of England so as not to clash more than is necessary with other operators?—Yes.

5035. Taking those figures, there was one million falling due on the 9th April, 2½ millions falling due on the 10th June, and 2½ millions falling due on the 1st December. Those are the figures given in your memorandum (page 553), with the exception that the December number in your memorandum stands at 1½ millions because only 1½ millions out of the 2½ millions was renewed. What I wanted to put to you was, whether you thought that at the time of the year at which he had to take his decision as to renewing the sums falling due in April and June he had any more knowledge than he had when he framed his original budget estimate of what the results of the year would be?—He could have no more accurate knowledge of what the final results would be, certainly, and also that part of the year I admit was a very bad season of the year at which to draw money from India; but in that respect I can only say he appears to me to be unduly pessimistic. I think that he is not running nearly so much risk as a private financier who had to deal with those figures would run. He is taking a very much safer line, and an unnecessarily safe line, it appears to me.

5036. But given what you consider his original error of being unduly pessimistic in framing his budget, nothing had occurred up to that time which ought to have made him reconsider the position?—That I cannot say from memory now. It was in 1910.

5037. But you would agree that at that period of the year—early in June—he would know little or nothing more of the prospects of the year than he did when he made his budget statement?—No, not much more in June.

5038. So that, given the original error, the practical criticism is that instead of paying off only one million in December he ought to have paid off the whole 2½ millions then?—I think he might have done so, yes.

5039. Is it within your knowledge that besides those bills he had to pay off nearly two millions in 1912–3 and a sum of 1¾ millions in 1913–4?—There were large sums to be paid off, but I do not remember exactly what the figures were and the dates.

5040. Would you admit the necessity for doing that as a reason for keeping the balances somewhere above normal, at whatever figure you might fix your normal?—It does not appear to me necessary to make any special provisions for those payments when there are cash balances at the beginning of the year of over 16 millions sterling. I cannot see any necessity to make any special provision for anything with a 16 millions sterling cash balance. In fact, if he drew no bills throughout the whole year he could very nearly carry on and pay off all debts with an opening balance of 16 millions or an opening balance of 18 millions. I cannot conceive any necessity to make any preparation.

(*Mr. Gillan.*) May I explain that the budget always provided for a very large reduction in the opening balance?

5041. (*Chairman.*) What do you say to Mr. Gillan's suggestion? Let me put it in this way: It seems to me that because not merely the opening balance, but the closing balance, was very high, you argue after the event that he ought to have done something different?—Yes.

5042. But the Finance Minister did not anticipate that the closing balance would be very high. I think he proposed to keep it higher than you consider necessary, but I will come to that in a moment; but in each of these years he budgeted for a great reduction in the closing balance?—The Secretary of State budgeted for a certain reduction, but the figures appeared to me to be extremely questionable. I have before me the explanatory statement which was published last February, giving at length the reasons for those reductions (Cd. 6619). In explaining these large closing balances, on more than one occasion the reason is put forward that the Secretary of State drew nine millions in excess of his requirements. That is the explanation which occurs on more than one occasion, that the balance turned out to be very much greater than anybody had anticipated or imagined, the reason being that the Secretary of State had himself made it very much larger by weekly piling it up without the slightest necessity, as it appears to me.

5043. Assuming that the total balances were for one reason or another very much larger than had been expected, what was the best use that the Government of India and the Secretary of State between them could have made of the surplus?—I think the best use would have been to place money at the disposal of the Indian money market, not to have lowered exchange by drawing it away to this country.

5044. But in getting it over here was not the Secretary of State getting it where it would eventually be needed?—Not in the slightest, I think.

5045. Would it not eventually go to capital expenditure on railways?—It might do so, but I do not know that it necessarily would; and if it went to capital expenditure on railways, then a certain proportion of it, and only a certain proportion, would need to be expended in this country.

5046. But to the extent to which he had to spend it in this country on rolling stock or on material for the railways, London is the place where it would be wanted?—Yes, to the extent to which the surplus balances are expended in railway material, London is the place where it would be wanted, certainly.

5047. And to the extent to which it went to the redemption of debt, it would be wanted in London?—Yes.

5048. To the extent of those two demands do you think that the Secretary of State was right to bring it here?—I cannot say that I do, because I do not think when the money was brought over there was the slightest idea as to how it was to be used at all. So far as I am able to discover by looking at the records it seems to me that it was brought to this country without rhyme or reason, and when the money was accumulated here in enormous quantities then only did the office turn round to see what could be done with this money. I do not think it was contemplated that the week-by-week withdrawal was for the specific purpose of buying railway material in case it might be wanted in the future. I do not think that was the intention, although, of course, when the money was brought here it had to be utilised somehow. But if the surplus collections of revenue are utilised in capital works, then a certain proportion will be required in London, and it can be made use of; but that only appears to me to be, so to speak, a way out of a difficulty. Having brought the money here and having to use it somehow or other, perhaps the best way to use it was to expend it on capital works—reproductive works.

5049. We will pass from the question whether the original estimates were justified. Supposing the money to be there, could the Secretary of State or the Indian Government have employed it for any purpose more useful to India than either the reduction of old debt or the avoidance of new debt?—No, probably not.

5050. If they had at once employed it for either of those purposes you would not have criticised their action?—No, if the money had been employed immediately for those purposes; but debt cannot be redeemed at a moment's notice. The action which our chamber of commerce took was to press upon the Government the desirability of expending some of the surplus accumulations on railway construction. That course we took on several occasions. Of course, we do not in Karachi have the knowledge of the moment at which debt can be redeemed, but we do know, or we think we have some idea, when money ought to be spent on

capital works, and when we saw large accumulations, the action we took was to press for the utilisation of that money on capital works as being the best way to make use of it.

5051. When you and I both just now made use of the expression that if the Secretary of State had been able to use this money immediately you would not have greatly criticised, you would not press the word "immediately" too hard, would you?—No.

5052. You mean within a reasonable time?—Yes, but in view of the figures in my note I might say that three or four years, or four or five years, was not a reasonable time.

5053. Your real complaint on this matter, given the existence of the high balances and the fact that they could not be or were not used at once in the way stated, is that they were loaned out on the London money market instead of being loaned out in India?—Yes; in short, that the best use was not made of the money.

5054. The best use in what way; the best use from the point of view of earning interest, or from the point of view of the general advantage to India?—Both.

5055. You think a higher interest could have been earned in India?—I am quite certain it could.

5056. Do you hold that opinion on an average of the whole year?—Yes, certainly.

5057. Taking account of the fact that you might only be able to employ the money in India for a small portion of the year?—Small sums of money might be utilised through the whole of the year, but very large sums of money could not be utilised through the whole of the year. Past experience has not led the Indian money market to expect that these enormous sums of money will be available, and it is not to be expected that in any year when a large amount of money is suddenly thrown at the money market in India it can receive it or make use of it. Even the London money market broke down under those circumstances; no securities could be produced, and the money had to be given to bankers on deposit without securities; this happened even in London; and it is not to be supposed that India could swallow such large sums of money unless it had been the habit for many years to place this money at the disposal of the Indian money market. If the money was regularly made available in India I have not the slightest doubt that means could be found for making use of it.

5058. I think you formed a special objection to the loan to bankers in England; or is your objection there merely a general one to loaning the money in London at all?—A general objection. I do not intend my note to be any reference to individual borrowers in any way. If the money is lent, of course I assume that it has been lent to the best borrowers and to the best advantage. I am only objecting to the whole principle.

5059. Does that apply to what you say in paragraph 10 of Appendix XXI. (page 553)? At the end of paragraph 10 you mention one particular house to which loans were made?—Yes.

5060. That is merely an illustration; you have no special criticism to make?—No.

5061. Suppose these balances had been retained in India, I understand from what you have told me there were two methods by which you would have used them; one was in loans to the banks and other borrowers, and the other was in railway development in India?—Yes.

5062. Railway development in India, I suppose, would have caused a corresponding increase in the Secretary of State's expenditure at home?—Yes.

5063. And to that extent would have justified additional remittances to this side?—Yes.

5064. In paragraph 12, Part I., of Appendix XXI. (page 553) you say: "Remembering that the Indian "Paper Currency and Paper Currency Reserve are "under State control and therefore easily available to "Government in times of grave national emergency, "I am of opinion that the Government of India's "floating cash balance ought, in the interests of "economy, to be kept down to a maximum of "10,000,000*l.*" What is the meaning of the reference to the Indian Paper Currency and Paper Currency Reserve in that connection? Do you mean that the total currency reserve should be diverted to other purposes besides the maintenance of currency?—In times of grave national emergency, yes, certainly, in exactly the same way that the Bank Charter Act has, in times of grave emergency, been suspended in this country, and issues of bank notes have been made against which the securities were not held which were required under the Act. In the same way, in times of grave national emergency, no doubt paper currency could be issued in India against which the securities which are required under the Paper Currency Act would not be held. In other words, paper currency might be floated to some considerable extent in times of national emergency without any security except the credit of Government.

5065. (*Sir Robert Chalmers.*) If I may interrupt, is it the fact in the case of the Bank of England that there has been any issue without anything at the back of it?—I think practically nothing except the credit of the Government.

5066. That is your belief, is it?—I think so, yes.

5067. You do not take the view that it is the absence of gold and the deposit of securities which must be utilised in those circumstances?—The reason for the note issue is the absence of gold—the scarcity of gold.

5068. Instead of gold, would you not agree that in those cases the action contemplated has been to deposit securities in lieu of gold, but still securities?—Yes, it may have been so contemplated.

5069. It is not an issue with nothing at all behind it?—I think it has been.

5070. (*Chairman.*) Does it not occur to you that at such a time as you have spoken of, instead of there being an increased demand for paper currency, paper currency might be coming in for encashment?—It probably would in some circumstances.

5071. But you would take power to refuse encashment?—Yes, I think it might be done in times of grave national emergency. Supposing the metallic supply of currency runs out or could not be got hold of—suppose it was hoarded or disposed of in some way to cause the Government embarrassment, I think the Paper Currency Act might be suspended in a time of grave national emergency till the crisis was got over.

5072. In forming your view as to what balances the Government of India ought to keep, you are influenced in part by the fact that there is a reserve against the note issue which you think might in a crisis be made available to supplement any deficiency in the balance?—Yes.

5073. Of the total balance of 10,000,000*l.* which you suggest, you propose that 3,000,000*l.* might be kept in London, leaving 7,000,000*l.* in India?—Yes.

5074. Will you tell me how you arrive at all three of those figures; by what process of calculation or reasoning do you arrive at the fact that 10,000,000*l.* is sufficient in the whole, 3,000,000*l.* in London and 7,000,000*l.* in India?—Do you mean the proportion of three to seven?

5075. And the total?—The total of 10,000,000*l.* I have arrived at because on former occasions the Government of India's cash balances have been down to that figure without disaster.

5076. And the proportion?—The proportion is on the same principle. The Secretary of State's balances have been down very nearly to three millions. I think in years gone by the usual figure used to be about four millions; it was three and a half to four or four and a half millions. I think that used to be the Secretary of State's balance many years ago.

5077. (*Mr. Gillan.*) Will you give us the years to which you refer?—Do you mean the Government of India's balance being down to 10,000,000*l.*?

5078. Yes?—I will give you the exact dates (*see* Qu. 6031).

5079. (*Sir Robert Chalmers.*) As regards the balances in London, about what amount do you think at the beginning of each quarter the Secretary of State has to pay out for dividends? Would it be practically three millions for that precise purpose?—For dividends on the guaranteed State railways?

5080. All the dividends that fall to be paid by the Secretary of State here in London. Is it about three million pounds that has to be paid at the beginning of

each quarter?—It is a large sum, yes. I think it is approximately getting on for that.

5081. And therefore that would swallow up the whole of your balance straight away?—If there were no money coming in, yes.

5082. (*Chairman.*) In the case of the balance in India, do you draw your 7,000,000*l.* from a comparison of the lowest balance which they have held with safety?—Yes.

5083. Are you aware that the Government of India have from time to time carefully gone into that matter to consider what balances they should hold?—I am not aware, but I hope so.

5084. We have had it in evidence, I think, that they have examined the needs of their different treasuries, and the calls made upon them, and they have fixed their figure—which is much higher than yours; it is 12½ millions on the 31st March—with a view to the actual needs. Are you prepared to challenge their opinion from your own knowledge of what they require in district treasuries or in their headquarters treasuries?—I am not prepared to challenge it, no. I do not know what enquiry has been made or what figure has been arrived at. I have never heard of this figure of 12½ millions before. However, 12½ millions is nearer to 10 millions than the 30 millions or the 27 millions which have been held recently.

5085. It corresponds with the seven millions; it is the balance in India?—Yes. Mr. Gillan asked me the year. I will give the exact year. I cannot put my finger on it at this moment, but I will give the years, as I have all the balances taken out for 10 or 12 years.

5086. You say in paragraph 14 of Part I. of Appendix XXI. (page 554): "With regard to the 10½ crores "cash balance in India, as much of this as possible should "be placed at the service of the Indian money market, "just as is done by Government in England." What exactly do you mean to convey by that?—I mean to convey by that that I understand in this country the Government balance is kept at the Bank of England.

5087. And that the Indian balance should in the same way be kept with the Indian banks?—Very much more freely with the Indian banks; to a very much larger degree than at present.

5088. Contemplating as you do a much larger amount of money being left with them, do you intend that they should have its use free of interest, or do you propose that they should be charged with interest?—I think that negotiations might be entered into. I do not know why the banks should receive these favours free of charge.

5089. You intend that the banks should lend the money out again for the benefit of trade?—Yes.

5090. What sort of rate should the Government charge—bank rate, or something below bank rate?—I should only suggest that they must charge as much as they can get. It is very difficult to say what the figure would be. It would vary considerably. I heard of banks this year in the last cold weather paying as much as 7 per cent. for money, and I myself placed money with banks this cold weather at 5 per cent.

5091. When you say in your memorandum that the balances kept with the Presidency banks should be considerably increased, you do not mean on the present terms?—No, not necessarily on the present terms.

5092. You say: "The withdrawal and retention in "the Government treasuries of vast sums of cash "arising out of the customary collection of the Indian "revenues, contributed materially to the severe "seasonal tightness of the Indian money market," paragraph 14, Part I., Appendix XXI. (page 554)?—I think so undoubtedly.

5093. That is specially the case, is it not, because the pressure on the Indian money market for trade purposes comes at the same time as the major collection of revenue?—Very much at the same time, yes.

5094. And that is unavoidable, is it not?—I am not quite certain, but I believe that the Government collect their money at this period because the crops are being sold, and there is plenty of money available, and it is a convenient time for Government to collect its revenues.

5095. (*Sir Robert Chalmers.*) They are mainly land revenues?—Yes, mainly land revenue.

5096. (*Chairman.*) But your desire would be that they should hold it as short a time as possible and return it into circulation through the banks as quickly as possible?—Yes. May I, in connection with the previous question, point out that in the explanatory statement prepared by the India Office in February last in summarising the question of the balances it concludes that "As far as can be foreseen the balance "at the India Office on the 31st March 1913, will be "about half what it was at the corresponding date of "1912, while there is no present probability that on "the 31st March 1914 it will exceed the amount "required as a safe working balance" (Cd. 6619), the clear inference being that in previous years it has exceeded the amount which is required for a safe working balance. That is the India Office's own view of the situation.

5097. In connection with what you have said as to increased loans to the Presidency banks, do you think that there would be any advantage in the creation of a State or central bank?—I have seen proposals in the "Times" and other papers, but I have not yet been able to see what advantage to India on the whole would arise from the creation of a State bank.

5098. Would you be afraid yourself that if one central institution took the place of these three banks the needs of the different districts served by them would get less intimate attention than in the case at present?—No, I do not know why they should.

5099. As far as you are concerned you do not attach any great importance to the establishment of a central bank?—No, as far as I am able to understand the proposal which appeared in the press—of course, I do not know how far that is authoritative—it does not appear to me to hold out any advantage to India commensurate with the disadvantages and the risks and dangers.

5100. (*Chairman.*) We will go now to the sale in London of Council bills and transfers. I observe that you say in paragraph 2 of Part II. of Appendix XXI. (page 555) that "The first and only object of the "weekly sales of Council drafts was, and should remain, "the provision in London out of revenues collected "in India of the sums necessary to enable the Secretary "of State to meet India's home charges"?—I think so.

5101. May I take it from that that in your opinion the Secretary of State should sell the amount required to meet his own charges and nothing more?—Yes.

5102. You are wholly opposed to his selling for the convenience of trade?—Altogether.

5103. For what reason? I assume, in putting that question, that he sells only when it is convenient to him to do so, but in excess of his needs, and that there is a trade demand for those Council bills. What is your objection to his selling them?—I think it is outside the functions of Government to undertake international finance, which is the work of a banker; that is my chief reason.

5104. If he did not sell, what would happen?—As things are at present, sovereigns would have to be shipped to India.

5105. That would be more costly?—Much more costly than the past sales of the Secretary of State.

5106. Would not sovereigns which were shipped to India at one period of the year have to be shipped back to England at another period of the year?—It is possible.

5107. At any rate, to a very large extent?—I do not think so.

5108. You think not?—I think not. I think it is possible that some gold might need to be returned at the end of the busy season, but not necessarily.

5109. (*Lord Faber.*) It would depend wholly, would it not, on the balance of trade between the two countries?—Entirely.

5110. (*Chairman.*) But taking the conditions of trade in the past few years, is it your experience that if the Secretary of State had not sold in excess of his own needs, and the difference had been met by the shipment of gold to India most of that gold would have remained in India?—I think probably recently some of the gold would have had to have been returned.

5111. If it had to be returned, then there would be a double additional charge on Indian trade?—If the

gold had been returned there would be a charge on Indian trade, yes.

5112. (*Sir Robert Chalmers.*) Of 10*s.* per cent. each way?—Whatever the cost might be, wherever the gold was shipped from; I do not consider that it is any part of the functions of Government to expend the public revenues in facilitating private trading by shipping gold about at the public expense. That is my view. There is no doubt that the present procedure is economical from the trader's point of view, but it is a loss to the Government.

5113. (*Chairman.*) Under the practice which has been pursued, gold has not been shipped either way?—Gold has been shipped to and from India.

5114. There has been a certain amount of gold shipped?—Government have shipped back some gold, too.

5115. To the extent to which the Secretary of State has sold in excess of his own needs, that form of remittance has been substituted for the shipment of gold?—Yes.

5116. And to that extent, or to a proportion of that extent, the re-shipment of gold has been avoided?—To some extent the re-shipment of gold has been avoided.

5117. Has that cost India anything?—Yes.

5118. Will you tell me why and how?—Because every sale which the Secretary of State has made of rupees below gold import point is a direct loss to the Indian revenues.

5119. Then you hold that no gold should be sold below 1*s.* 4$\frac{1}{8}$*d.*?—Below gold import point. It fluctuates of course.

5120. When you are speaking of the gold import point are you thinking of the point at which it pays to ship gold from London?—No, not necessarily from London; it may be from Egypt or it may be from Australia.

5121. It often is cheaper, I think, to ship either from Australia or from Egypt than from London?—Yes.

5122. But in your opinion the Secretary of State ought to hold out for some fixed minimum, ought he not?—Yes, I think so.

5123. What is that fixed minimum?—I should put the fixed minimum, so far as sales on behalf of the home charges are concerned, at a shade below gold import point. Possibly on the year that would be about 1*s.* 4$\frac{1}{16}$*d.*; sometimes it would be 1*s.* 4*d.* and 1$\frac{1}{2}$ annas, that is to say, 1*s.* 4$\frac{3}{32}$*d.*; sometimes it may even drop below 1*s.* 4$\frac{1}{16}$*d.*; it may sometimes approach 1*s.* 4$\frac{1}{32}$*d.*; but on the whole, on the average, I should think 1*s.* 4*d.*$\frac{1}{16}$*d.* would be a reasonable fixed rate to take.

5124. You would fix the rate at such a point as would make him certain to obtain the amount that he wanted himself?—Yes.

5125. And you would never sell below that rate?—No.

5126. Would there not be great difficulty in getting at all a level point throughout the year?—I cannot see any reason for the difficulty.

5127. I take it that the demand is much greater at one period of the year than at another?—Undoubtedly.

5128. Would the greater demand come in the second period of the year?—In the second period of the official year, yes.

5129. Supposing that, finding that the demand was slack and the rates therefore low in the first part of the year, he had offered very little, could he be quite certain that he would be able to cover that in the latter portion of the year?—I think so.

5130. We come again to your original criticism, I think, that he is unduly cautious?—Very much so in this respect.

5131. In your opinion, he might take much greater risks than he does?—I think that the process of auctioning might very well be abolished, and if there were a brass plate on the door of the India Office saying that rupees are always obtainable here at 1*s.* 4$\frac{1}{16}$*d.* on any day of the week and at any time, that would meet the case probably. Of course there are practical difficulties. The Treasury balances in India would have to be sufficient to permit of the sale of rupees in this way, but it seems to me that there is no reason why the rupees should be auctioned, or why they should not be available at all times at a fixed rate.

5132. Is not the auction a way of obtaining the best price possible?—Yes.

5133. And is it not the best way?—Not at present, because the present auctions are conducted on an incorrect minimum. They are being sold at present, for example, below 1*s.* 4*d.*, which in my opinion is merely throwing money away.

5134. Supposing the Secretary refused to sell until he got a higher figure, he would not sell at all, would he?—I think he probably would.

5135. You think he is so far in the position of a monopolist that he can practically fix his own price within the limits which you have named?—Yes, I feel quite certain of that.

5136. Your criticism rests upon that assumption, that he really commands the market, and can make his own price?—Yes.

5137. (*Mr. Gillan.*) May I ask what you think would happen in a famine year?—I think that portions of the Treasury balances and of the Gold Standard Reserve would be shipped home in sovereigns.

5138. There would be no drawing of Council bills?—Possibly not. You would ship home probably some of the revenue collections in the form of sovereigns.

5139. (*Chairman.*) Have you considered what effect the fixing of a rigid rate of that kind might have on the balance of trade?—I do not think it would have any effect at all.

5140. You do not think that the course of trade is affected by the rates at which these transfers can be obtained?—Not on the whole. They may produce temporary fluctuations, but on the whole, taking the year's trade as a whole, I do not think it has the slightest effect whether you make it 1*s.* 3$\frac{1}{4}$*d.*, 1*s.* 4*d.*, or 1*s.* 4$\frac{1}{2}$*d.*

5141. To what length do you carry that? Supposing instead of 1*s.* 4*d.* the Secretary of State said, "I will not sell below 1*s.* 6*d.*," what then?—I think he would get 1*s.* 6*d.*

5142. Could he get 2*s.*?—I think so.

5143. Practically, in your opinion, the Secretary of State can fix the rupee at any value he likes, and can enforce it on the market?—Any reasonable figure. You cannot carry it to an absurdity.

5144. (*Lord Faber.*) He could not carry it to a price at which you could ship gold?—Under the existing legislation by which the sovereign is legal tender for 15 rupees he could not at present sell it at higher than 1*s.* 4$\frac{1}{8}$*d.*, because, according to the present legislation, sovereigns are legal tender for the equivalent of 15 rupees. That would, of course, need to be altered, and the sovereign would have to be legal tender for 10 rupees if it were contemplated to force the rupee up to 2*s.*

5145. (*Chairman.*) But apart from that, you think he could force the rupee to any price he liked by merely refusing to sell it at a lower price?—Yes, any reasonable price.

5146. How does the experience of 1893 bear that out? I put it to you that in 1893, when the mints were closed, the Secretary of State was urged to sell no Council bills cheaper than 1*s.* 4*d.*?—Yes.

5147. His experience was that sales at that price were impracticable, but for six months he refused to sell at lower than 1*s.* 3$\frac{1}{4}$*d.* The maintenance for a time of this minimum converted the normally favourable balance of trade into an unfavourable one?—Temporarily.

5148. At 1*s.* 3$\frac{1}{4}$*d.* the Secretary of State could only sell trivial amounts of bills?—That is so, the reason being that the Secretary of State flooded India with tons of silver rupees at the time when the mints were closed, and consequently there were more rupees available than anybody wanted, and the Secretary of State had to wait for several months before any demand for more rupees arose.

5149. Meanwhile he had to borrow nine millions to make good the shortage in his receipts in this country?—Yes.

5150. Then he resumed the sales, but at a lower price?—Yes.

5151. You think there is no lesson to be learnt from that except the fact that too many rupees had been coined immediately before the closing of the mints?—Yes.

5152. (*Sir Robert Chalmers.*) What did the exchange go to later on? Was it 1*s.* 0$\frac{1}{2}$*d.*?—It dropped in those days before the closing of the mints.

5153. No, I mean after 1893. It was about 1*s.* 0$\frac{1}{2}$*d.*, was it not?—A shade below 1*s.* 1*d.*, as my memory serves me.

5154. That was some time after the closing of the mints in 1893, when there was nothing special in the way of extra additions to the currency?—The year that exchange fell below 1*s.* 1*d.* was, I think, about 1894, but I am not quite certain.

5155. (*Chairman.*) Assuming that the Secretary of State adopted the policy which you suggest, the effect would be very largely to increase the shipments of gold to India?—Yes.

5156. What do you think would happen to the gold when it got there?—I think as the years went on more and more of it would pass into circulation and be used exactly as gold is used in every other country.

5157. That would be a gradual process?—Yes, a gradual process.

5158. In the meantime what would happen to the gold? I suggested to you that the major portion of it would have to be shipped back, but I think you do not agree with that?—Some of it might have to be shipped back, yes. It would depend on the balance of trade.

5159. And the rest, until gold largely increased in circulation, would be where; would it be in hoards, or would it be returned into Government treasuries, or what?—I think at first it would probably accumulate in the Paper Currency Reserve, and a certain proportion no doubt would be hoarded. I think the hoarding would diminish year by year.

5160. In subsection (*b*) of paragraph 5 of Part II. of Appendix XXI. (page 556) you say: "As soon as a "sum equivalent to the total of the home charges had "been realised, not another rupee should have been "put up for auction until the proportion of sovereigns "in the Indian currency had exceeded public require-"ments." What exactly do you mean by that? Do you mean until the Paper Currency Reserve was overloaded with sovereigns and insufficiently supplied with rupees to meet possible demands?—Yes.

5161. Has there not been rather more than enough gold in the treasuries and Paper Currency Reserve in India of late?—The rupee portion of the Paper Currency Reserve sunk to a low figure last year.

5162. Then take the reserve treasuries in India. On March 31 last there was nearly 20 millions of gold?—Yes, I believe there was.

5163. Would you consider that when 20 millions of gold had been reached the public requirement was exceeded?—No, not necessarily.

5164. Have you any measure which you could indicate to us of what figure the public does require?—I think the measure is the demands of the banks who are financing trade. There have been several occasions, I think, when the supply of rupees has run short, especially in Bengal, and when the banking community were calling out for more rupees. When that stage is reached it is evident that rupees are in demand.

5165. That stage never ought actually to be reached. The Government of India ought to foresee the difficulty before it arises and always have rupees enough?—Yes, I think so.

5166. They must act in prevision of such a demand and not merely coin rupees after it is found that they cannot supply them?—Yes, I think so, although I believe the usual practice in this country is for the banks to make demands for token coinage, and when the banks make demand then the mint authorities coin the small change and issue it. In the same way, when the banks make demands for rupees in India then the Government might issue rupees.

5167. The position is not quite the same in India?—Not quite the same.

5168. Because you do not have an institution like the Bank of England?—It is not quite the same, but it is very much the same.

5169. When there is as much as 19 millions of gold in the reserves in India and in the treasuries is not your condition met that the proportion of sovereigns in the Indian currency has exceeded public requirements?—Not necessarily. There is no reason why the entire Gold Standard Reserve should not be held in sovereigns, and very nearly the whole of the Paper Currency Reserve held in sovereigns, and nearly the whole of the balance in the Government treasuries held in sovereigns; there is no reason why the entire currency should not be sovereigns.

5170. We are talking of the public requirements for sovereigns?—Yes.

5171. I am not now talking of the Gold Standard Reserve or the Paper Currency Reserve, but if the number of sovereigns or the amount of gold in the Treasury stands at a very high figure, is not that because the public has paid in sovereigns and not drawn them out?—Not necessarily. It may indicate that the public are using sovereigns as currency and that Government revenue is collected in sovereigns, and that the trade of the country is carried on by means of sovereigns. It does not necessarily mean that there are too many sovereigns, or that the proportion of sovereigns in the currency is unduly large; it does not necessarily mean that.

5172. What do you mean by saying that the Government should sell no more bills until the proportion of sovereigns in the Indian currency has exceeded public requirements?—I mean until the banks and the public are demanding more rupees.

5173. Until the Government are unable to supply the demand for rupees?—Yes.

5174. And short of that point arising you would go on accumulating gold?—Yes. May I correct paragraph 5, sub-clause (*c*), of Part II. of Appendix XXI. (page 556)? The last portion of the paragraph reads: "but not at a lower rate than specie point for gold "imports—then 1*s.* 4$\frac{5}{32}$*d.*" I should like to make it read "then about 1*s.* 4$\frac{5}{32}$*d.*," because, of course, the gold point was not a fixture, and I do not mean to imply that that figure indicates a fixed figure. It is an approximate figure.

5175. I am coming now to your conclusions in this section, paragraph 7. You say that it is only by the means which you have proposed that the India Office's noxious interference with the foreign exchanges, imports of gold, local discounts and general price levels can be checked. As regards foreign exchanges, the object of the Government of India, I suppose you would agree, has been to maintain the exchange at a stable point, as stable as they could?—Up to a certain point, yes. This policy has not been carried sufficiently far.

5176. Then your objection is not to the object, but you say that they have not carried out the object out effectively?—They have not carried it out to its conclusion, that is to say, they have not secured the highest obtainable rate for the rupees which they are selling.

5177. Is it your opinion that it is India's interest to have a stable exchange?—Yes.

5178. Has that been secured by the system which has been adopted?—Speaking generally, yes.

5179. Could it have been secured in any other way except by large gold imports?—I do not quite follow.

5180. Suppose the Secretary of State had not sold Council drafts to the extent to which he has, the exchange would only have been maintained by the export of gold?—Yes, and always at gold point. We should not have had exchange down below 1*s.* 4*d.* or at 1*s.* 4$\frac{1}{32}$*d.*; we should have had exchange regularly and steadily in the neighbourhood of 1*s.* 4$\frac{1}{16}$*d.*

5181. And that, I think you have already said to me, would be more costly to the Indian trade than the present system?—No, not costly to Indian trade as a whole.

5182. But more costly to the people who had to make the remittances?—It would be temporarily to those people who are interested in the import trade of India an advantage to get as high a rate of exchange as they could, but it is only a temporary advantage. It is not a permanent advantage. It is an advantage from day to day and week to week. If I am a Manchester importer, for example, it is an advantage to me week by week to get as high a rate of exchange as I can, and if I am an exporter of produce from India then it is an advantage to me week by week to get as low a rate of exchange as I can; but that is not a

permanent advantage or a permanent loss to India. It is only a temporary matter from week to week or from month to month.

5183. On the general balance the advantage of the community is to have a stable exchange?—Yes, a stable exchange. I do not think it makes any difference to India whether it is stable at 1*s.* 3*d.*, 1*s.* 3½*d.*, 1*s.* 4*d.*, or 1*s.* 4½*d.*, so long as there is a fixed exchange.

5184. You have said quite clearly, and very reasonably from one point of view, that you do not think it is the business of the Government to be managing the foreign exchange?—Not at all; it is most objectionable.

5185. Do you, apart from that, make any criticism of the action of the Secretary of State? I think you do, but I want to get it quite clearly?—In regard to the sale of Council drafts?

5186. Yes?—My only objection in this connection is that the Secretary of State is making a rate of exchange.

5187. And that he is not making it as good for himself as he might?—That is exactly the case.*

5188. (*Lord Faber.*) I only want to ask you a very few questions. We have heard a good deal about the big balances at home; and, granted that they are too big, I suppose you think that that is more a question of expediency than a question of principle? It depends, in fact, upon the failure of the monsoon, or two monsoons running, or upon the inability of the Government to pay for material for railways which had been contracted for but which had not been delivered, and, therefore, the balance has swelled in that way. You would agree that it is more a question of expediency and not of principle; it is not a big question in itself?—I am not quite sure whether I follow the drift of the question. My view is that there ought to be no big balances, but if there are big balances they ought to be used in India and not in England; they ought to be used first in India rather than in England. If by unavoidable circumstances large balances are accumulated in England, then they must, of course, be used in the best possible way. In those particular instances I do not think that those balances have been even used in the best possible way, because they have been used for short-period loans rather than for long-period loans.

5189. Would you change the date of the budget? It would enable the Chancellor of the Exchequer in India, so to speak, to budget nearer the mark if the budget was made after the monsoon?—I do not think so. I think the monsoon has got to come into every year, whether it comes early or comes late.

5190. Yes; but in one case, as I understand it—I may be wrong—you budget before the monsoon, and in the other you budget after?—The object of the budget is always to prepare a statement for the year to follow. It is an estimate of your financial arrangements for the year to come, and, whether you make that forward estimate in the month of March or in the month of September, in either case you would have the monsoon coming into the 12 months, and it would be equally uncertain, because you would be calculating for the coming monsoon of the next year.

5191. (*Chairman.*) If your financial year began on October 1, would not the Finance Department know much more of the prospects of the year than when it began on April 1?—They would know no more about the year to come, but they would have a very much better idea of the year which had just passed.

5192. But would not they have of the year to come? Would not they by the month of October know what the results of the one monsoon had been, which was the more important one?—Yes, in that respect they would know what closing balance they would be likely to have.

5193. (*Lord Faber.*) They would know whether India was likely to be prosperous in the coming year owing to a good monsoon having passed?—Yes.

5194. Are you aware, touching the question of the big balances again, that for the first time for a good many years certainly India is not raising this year any loans at all? They are going to take it out of the budget balances—I am very glad to hear it.

5195. As you know, they borrow generally four or five millions a year at home?—Yes.

5196. They have not done so this year; it is coming out of the balances; or, at least, so we are informed?—That is a policy which I think should have been adopted some time ago.

5197. Do you think that if the Secretary of State in London lent for longer than five weeks, say for three months, he would get materially better terms, bearing in mind the great factor that the Secretary of State only lends on very first-class floaters in London? What I mean is this: Given that the Secretary of State wants this particular kind of security, would he ever be able to get much better rates than he does now for three or five weeks' money? Is it not rather the class of security that makes the loan so difficult to put out?—I think a long-period loan must of necessity command a better rate than a three weeks' loan, no matter what the security is. It stands to reason that you can make better use of money which is in your hands for three months than you can of money which is in your hands for three weeks. How much greater the advantage would be is a matter which I am not sufficiently expert to give an opinion on, but you would get an advantage undoubtedly.

5198. At the moment, as the Chairman says to me, perhaps you would pay more for the three weeks' loan than you would for the three months' loan?—That is possible.

5199. Taking it for granted that part of the big balance should be lent in India, would you tell us what your own mind is about the possibility of lending it—on security, of course? I think you perhaps agree that security should be demanded in all cases; if not, I should like to hear your reasons for not demanding it; but, granting that, do you think you could lend out

NOTE BY MR. WEBB.

* The following extracts from the press in India with regard to the Secretary of State's sale of India (Office) Council bills on the 12th February 1913 speak for themselves:—

1. "As was to be expected, in view of the happenings in the local money market, there was on Wednesday a slacker demand for Councils, with a consequent decline in the minimum rate, at which these were let go, to 1*s.* 4*d.* for bills, and 1*s.* 4 3/32*d.* for telegraphic transfers, tenderers at these rates receiving seven per cent. of their requirements. The total taken in bills was Rs. 15,10,000, and in T. T. Rs. 84,90,000 and Rs. 100 lakhs will be again on offer next week. The two matters for comment in this allotment are the heavy proportion of T. T., Calcutta alone taking Rs. 44½ lakhs in view of the comparative surplus of money here, and the fact that the Secretary of State continues to keep his offerings at Rs. 100 lakhs, in view of the diminishing rate."—Calcutta commercial correspondent in the "Pioneer" of 17 February 1913.

2. "The Secretary of State has sold 100 lakhs at the periodical bidding on Wednesday of which 85 lakhs were allotted in telegraphic transfers. The India Office has accepted one thirty-second less and has not reduced the amount of Council bills, which seems to cause some irritation among Exchange banks."—"Times of India" (Bombay), 15th February 1913.

The probable explanation of the Secretary of State's action in thus artificially depressing exchange, is given in the following letter of the 13th February 1913, to the "Sind Gazette" (Karachi):—

3. "May I point out to your readers that the Secretary of State for India has now stopped the further importation of sovereigns into India by the simple expedient of artificially forcing down exchange. Yesterday the India Office sold 15 lakhs of rupees deliverable in Calcutta at 1*s.* 4*d.* each. Of course, nobody can afford to import into India sovereigns which will only command Rs. 15 each in India, when, by giving those sovereigns to the Secretary of State for India in London, fifteen rupees can be obtained from the Treasury at Calcutta or Bombay or Madras."

The Secretary of State has not the slightest need for these extra sovereigns in London. Indeed he holds over 30,000,000*l.* of India's money there already. But by this simple device of selling legal-tender rupee tokens at below gold import point, he prevents India from receiving in gold the sums that are due to her in payment of the balance of trade in her favour.

Here we have yet another example of how the India Office manipulates India's exchange and currency, not—let it be carefully noted—for the benefit of India, but solely for the benefit of a section of the London money market.

It is exactly the same trick that used to be played centuries ago to prevent this or that country from getting the precious metal. That the India Office should, in this twentieth century, stoop to a repetition of the practices of the Middle Ages in this connection is a striking comment upon the way in which modern London thinks it is able to govern modern India. The India Office is making a sad mistake.

these big balances which are sometimes lent out on behalf of India in this big market of London?—I do not think it could be done with the same ease with which it can be done in this country, but, bearing in mind that my view is that the large balances ought not to exist, I think there would be no difficulty in disposing of the small balances which might lie accumulated in the Government treasuries.

5200. Do you think that when the Indian Government is lending out money in India they should lend by tender? It is rather a good principle, is it not?—I should think so. I think it is a good principle, yes.

5201. One more question which interests me very much, the exchange question. I gather that you only want the Government to sell enough bills to give them the money which they require for home charges?—Yes.

5202. You do not want them after that to interfere in the trade of India at all; you want the trade balance between the two countries to be regulated by gold exported or imported as the balance of trade may demand?—Yes.

5203. As, in fact, is done now between other civilised countries, such as America and England, and England and Paris?—Yes.

5204. (*Sir Robert Chalmers.*) As to a State bank, do you think there is any organic demand for a State bank in India?—No.

5205. One other question on a matter which was touched on in your examination-in-chief, and that is the paper currency. I am referring to paragraph 12 of Part I. of Appendix XXI. (page 553). Do you really contemplate enlarging the paper currency without either metal or securities behind the additional notes?—No.

5206. What do you propose to do?—With regard to the paper currency, to continue as at present.

5207. In answer to the Chairman, I gathered that you said that in time of stringency or difficulty you would set the printing press to work and you would print notes, putting into the reserve neither securities nor metal?—In periods of grave national emergency, yes.

5208. You would?—In periods of grave national emergency.

5209. But that paragraph of your memorandum on the subject of paper currency proposes that you should have your normal balances reduced to your 10 millions in view of the fact that you have got a certain reserve in hand for paper currency?—Yes.

5210. Is that reserve, in whatever form it is held behind the notes, too big, in your judgment?—The metallic proportion of the reserve?

5211. Metallic or securities. I am not entering into the proportion, but do you think that the total reserve is too big at present?—Not at all. The total reserve is exactly the same as the amount of the note issue.

5212. You would be prepared, then, to reduce that, and to reduce your Treasury balances, because you could draw away from behind the notes something, metal or securities, which is there?—In case of emergency, yes.

5213. But you would be doing that on a normal basis, would you not, according to that paragraph; you would be calculating on normal circumstances and reducing your Treasury balances?—Yes.

5214. Do you think that is quite sound and safe?—For the Government of India, yes.

5215. You would, therefore, *ex hypothesi*, be reducing the security behind the notes as they stand to-day?—Yes.

5216. And you would be doing that in normal times?—Yes.

5217. Coming to paragraph 3 of Part I. of Appendix XXI. (page 550), would you be so good as to turn to the figures which Mr. Abrahams put in, of which you have a copy, I think. It is Appendix No. II. Will you look at page 81 of that?—That is Statement E.

5218. That is the one. Do you see the totals for the four years in the last column but one; that is what I am going to ask you questions on?—Yes.

5219. You point out that nearly 20 millions more than was actually necessary in four years has been collected, and you put that down to heavy taxation?—Yes.

5220. Is that quite supported by that page in the returns at which you are looking? Under the heading of "Net Revenue" you will see that the third item is "Taxation," which accounts for just over two millions of the 20 millions for the four years?—Yes.

5221. Therefore, strictly speaking, the taxation has resulted only in two millions of the total amount of 20 millions to which you referred in that paragraph of your memorandum; that is so, is it not?—Yes, that would appear to be so.

5222. And the great factors in making up the 20 millions are "Opium, 7,310,457*l.*", and "Commercial undertakings (including railways)," which is over 7½ million pounds?—Yes.

5223. Those big items are not taxation; there is an amount of about 15 millions out of the 20 millions that does not come from taxation?—Yes.

5224. Who do you think paid the extra amount on the opium, amounting to 7,310,457*l.*? Did the ryot or the inhabitants of India pay it?—Yes.

5225. Do you think so?—Yes.

5226. Do you think the incidence was on anybody in India?—No, not the ultimate incidence.

5227. Is it not a question of price? Was it not paid for by the Chinaman?—Yes.

5228. So that that was not a burden on the people of India?—No.

5229. Taking the commercial undertakings, including railways, which resulted in an excess amounting to 7½ millions, that is mainly railways, as I think we quite agree?—Yes.

5230. How would that result? Is not that mainly between the ports—the produce going out and imports coming in?—Goods traffic and passenger traffic. The passenger traffic was a very large proportion, in fact, it is the major proportion, of the Indian revenue from railways.

5231. You would put this down to passengers and not to goods, would you?—No, it is probably, in the main, goods, I should think.

5232. It would be, in fact, prosperous trade in and out?—Yes, I should think so.

5233. Therefore, would you quite hold that the 20 millions represents over-taxation of India, if you look at it in detailed examination, even to this extent?—No, it would appear that the whole of the 20 millions is not altogether over-taxation.

5234. That is all I meant?—A large proportion of it is not over-taxation; it is revenue collected in excess of expenditure. That is how it is described in my note, "Revenue collected in excess of actual expenditure." Those are the words.

5235. The excess of expenditure arose not specifically from what is called taxation?—Only a proportion of it.

5236. And that proportion about 10 per cent. of your 20 millions?—A small proportion, yes.

5237. Will you turn to Appendix II., Statement B, on pages 74–5?—Yes.

5238. Taking the total closing balance in the Budget for 1913–4, that stands at 16,639,100*l.*, does it not?—Yes.

5239. That is a reduction from the actual closing balance of 1912–3 of about 11 millions?—Yes.

5240. Similarly, going back a year further, there is a reduction from 30,669,702*l.* to 19,589,871*l.*?—Yes.

5241. And in the year before a reduction from 30 million pounds odd to about 21¼ millions?—Yes.

5242. And in the first of the three or four years you have taken there is a reduction from 25,074,522*l.* to 17,735,242*l.*?—Yes.

5243. Those figures indicate a very definite desire on the part of the Government of India to reduce their balances—to use their balances in some form or other. They have actually reduced their balances by very substantial amounts throughout the period of four years; is not that so?—It appears, as far as I am able to see by the figures, that each year the Government have estimated a smaller balance, but actually they collected a much larger one.

5244. I quite agree, but having collected the still larger one, they sought with great anxiety always in

the next year to reduce their balances and not to keep them so high as they have grown to be, as a matter of fact?—So the figures seem to indicate.

5245. What use do you suppose they have made of those sums which they took out of their (as you say) inflated balances? What use did they actually make of these moneys? May I suggest the answer? Will you turn to Statement A in Appendix II., page 72, which deals with the receipts, disbursements, and balances for the year 1912–3. If you will look under the head of "B. Receipts," you will observe "Loans issued, 5,000,000*l.*", that is item 3?—Yes.

5246. Now will you look under "C disbursements." You will see the item "Capital outlay on railways, irrigation works, and Delhi."—Yes.

5247. That is over 11½ millions, is it not?—Yes.

5248. The next item is called "Discharge of debt," and it is 6½ millions?—Yes.

5249. Adding those two items 9 and 10 together, they amount to 18 millions?—Yes.

5250. That is capital outlay in discharge of debt. We began with the figure "loans issued," which is five millions; consequently, there was 13 millions that had been expended which had possibly, would you say, come out of balances?—It appears on the face of it that nearly 12 million pounds was expended in 1912–3 on railways, irrigation works, Delhi, and discharge of debt.

5251. Over and above the amount of loans issued?—Yes.

5252. Now turning back to the page before, page 71, for the year 1911–2, we have a similar sum net over and above the loans issued, amounting to about eight millions. I arrive at that like this: Do you see item 3 "Loans issued, 4,188,400*l.*"?—Yes.

5253. Then I come down to items 9 and 10, and I add those together, and make them about 12 million pounds, which makes a difference of about 8 million pounds?—Yes, so it appears.

5254. For the year 1910–1 you find a similar balance of about seven millions; you can take that from me. For the purposes of that question I take items 3 and 3A together?—That is six million pounds odd of loans, and about 13 million pounds of expenditure.

5255. That leaves about seven millions; that would show that there has been great expenditure, and that the expenditure must have come from some place other than revenue or capital?—Yes.

5256. And the expenditure with which we have been dealing is net over and above the loans issued?—Yes.

5257. In a previous question I drew attention to the steady amount by which the (as you would say) inflated balances had been reduced?—Yes.

5258. They have in fact been applied to capital purposes or the discharge of debt?—Some portions, yes.

5259. To the extent which we have mentioned?—Yes, apparently.

5260. And that sort of purpose is one that commands your approval?—Yes, certainly.

5261. Coming to Part II. of your memorandum (page 554), is the Government of India in the ultimate analysis in a different position from any individual who has money to get?—No.

5262. What does an ordinary individual do having to remit money from India to England? Does he stand out for 1*s.* 4$\frac{1}{8}$*d.*?—Do you mean an ordinary individual?

5263. Yes?—It is no use standing out for it, because the Secretary of State undersells him every time. There is no reason why he should not get 1*s.* 4$\frac{1}{8}$*d.* except for the Secretary of State.

5264. You think that the Secretary of State is in such a very strong position as to be able to dominate everything?—I do.

5265. Is the exchange of India essentially on a different footing from, we will say, the exchange between London and Paris?—No.

5266. Dealing with France, taking the par of exchange which we have agreed to be equal to 25 francs 22 centimes, do you think that an individual or a big corporation should always stand out for something over that parity?—No. The circumstances are not the same, though, because as a rule the balance of trade is very much in India's favour, and consequently India, as a rule, has large sums which have to be remitted to India. As things stand at present there is no way of remitting those sums except by either shipping gold or purchasing the Secretary of State's Council drafts. If you ship gold, the exchange stands at 1*s.* 4$\frac{1}{8}$*d.* or 1*s.* 4$\frac{1}{16}$*d.*, and there it would nearly always remain were it not that the Secretary of State comes in and sells rupees at 1*s.* 3$\frac{15}{16}$*d.* for no reason whatever.

5267. Have you any support in any country of the world that you can point to for your departure from the general doctrine of exchange?—To what doctrine do you refer?

5268. The doctrine that you should be prepared to get your money across at your own time within specie point; that is the general doctrine. Why should India depart from it?—There is no reason why India should depart from it. If India were worked at specie point the public would have to effect their remittances at specie point.

5269. What do you mean by specie point? Do you mean a bit below and a bit above 1*s.* 4*d.*?—By specie point I mean the point equivalent to the cost of importing sovereigns into India. That is what I call specie point.

5270. That would answer to 25 francs 33 centimes in Paris?—Possibly.

5271. Would you say that a person similarly positioned, dealing in that exchange, should refuse to deal except at 25 francs 33 centimes?—No, because I do not know that the balance of trade is regularly largely in favour of Paris as between London and Paris, but in the case of India the balance of trade is largely, as a rule, in favour of India. It is largely in the one direction in the case of India, and therefore exchange generally, without the interference of the Secretary of State, would always remain in the neighbourhood of 1*s.* 4$\frac{1}{16}$*d.* until such time as a change occurred and the balance of trade was turned in the opposite direction.

5272. Would you expect to be able to get the rate that you favour at all seasons in the year?—Yes.

5273. That is your belief?—Yes.

5274. (*Chairman.*) You mean whatever amounts the Secretary of State might require at any season of the year?—Yes.

5275. (*Sir Ernest Cable.*) Throughout your evidence you evidently have been in favour of budgeting more closely?—Yes.

5276. That would involve, would it not, more borrowing by the Government of India for reproductive public works; he would have to borrow more?—As compared with the recent procedure, yes.

5277. With reference to that, do you think they could borrow more in India than they do now?—Yes.

5278. At the present rate of interest?—Yes, I think so.

5279. You would not think it necessary that they should increase the interest?—I do not think so. I think there is more capital available in India than is popularly supposed.

5280. And you think it would come out in larger quantities if required?—I think so, especially if the rupee paper could be used as security for advances from the Government in times of heavy trade pressure. If holders of rupee paper could always utilise that paper to obtain loans from the Government in the busy season of the year I think there would be greater scope and greater demand for rupee paper than there is at present.

5281. In your evidence regarding lending out the Government balances you advocated lending not only to the Presidency banks and the exchange banks, but also to firms?—Yes.

5282. Of course, there are first class firms and second class firms. You would not suggest lending to any firm?—Oh dear, no, certainly not.

5283. Would it not be rather an invidious task for the Government to discriminate between firms?—It is a task that the India Office seems to have carried out most successfully. There are 72 favoured borrowers on the India Office list in the City of London, and I do

not know why there should not be 72 favoured borrowers on the Government of India list in India. I think I could make a larger list than 72.

5284. Then you went on to say that you thought there would be very large opportunities in India for utilising this capital. Do you wish to include in the purposes for which this capital is to be used, expenditure on local industrial enterprises, or merely on financing crops?—Mainly I have in my mind the financing of crops.

5285. You would not suggest that the money borrowed from Government should be utilised for other enterprise?—Not in private enterprises, no. There are many occasions when improvement trusts and port trusts and municipalities require large sums of money which the Government might place at their disposal if they felt that it was beneficial.

5286. I gathered that you were rather against a State bank?—I am unable to find that the advantages outweigh the disadvantages to India.

5287. I was only going to ask you whether any State bank, which would be looked upon by the masses as a Government bank, would not have the effect on the populace of bringing out hoards on deposit?—It might conceivably do so, yes.

5288. That was one of the things that occurred to me?—The public have an opportunity now of taking advantage of the Post Office Savings Bank in India, and I think the figures show that the Post Office Savings Bank is being used more and more every year. I recognise that it is an argument in favour of the State Bank that it might help to attract deposits from nervous depositors; that is an argument in favour of a State bank, and a sound argument, I think.

5289. (*Mr. Gladstone.*) I gather that you do not think that there would be very extensive opportunities of lending money in India, but that if the Government balances were considerably reduced the sums which would be available would be very moderate?—Yes.

5290. And such as the market would take?—Yes.

5291. With regard to your suggestion that loans should not be limited to the Presidency Banks, we have had it in evidence from the Exchange Banks that they would prefer that the loans should be limited to the Presidency Banks. They would not care to take the loans themselves?—That is a matter in which the Exchange Banks know their business better than I do.

5292. We have had that in evidence. Then if the Government are to look to private individuals to take these loans, would it not be very advisable for them from time to time to issue a moderate amount of short fixed term bearer bonds which would be convenient security with the smallest possible fluctuation?—Yes, I think such an issue might be very useful.

5293. That would be a security which would be popular with private individuals, and which they would be willing to hold throughout the year, and to utilise for loans in exceptional cases?—Yes, I think that would be very useful.

5294. There is obviously an objection to holding rupee paper, which may be expected to fluctuate with market conditions, not, perhaps, to the same extent as Consols do here, but in a smaller way?—Yes, I think such an issue would be very useful.

5295. With reference to paragraph 15 of Part I. of Appendix XXI. (page 554), sub-paragraphs (*a*) and (*b*), have you considered the system followed in regard to the purchase of stores at the India Office for railways and other things?—I know the system; I have some knowledge of the system.

5296. A very large amount of money is involved?—Yes.

5297. And this has to be taken into account in fixing the amount of the balances in London?—Yes.

5298. If railway and other Government stores were purchased and paid for in India, the amount of the Home Government balances might be *pro tanto* reduced?—Yes,

5299. You see no objections to this course being followed?—If for many years the India Office was able to work with a balance of four millions I see no reason why they should not still be able to work with a similar balance, and not require 15 or 18 millions.

5300. My point is that if they had not to purchase those large amounts of railway and other stores and pay for them, that would be put upon the Government of India, who would pay in India in rupees, and to that extent, of course, the balances here might be reduced?—Yes, certainly.

5301. Which policy, I understand, you favour?—Yes, certainly.

5302. I understand your view is that there is no reason why the Secretary of State should do for the Indian trade by excess sales of Council bills what no other Government does for traders?—Quite so.

5303. But is there any other country in the same position as India and England?—Not exactly, no.

5304. Is it your view that the movement of the crops might be left to banks and to traders just the same as it is in the Argentine and Egypt?—Yes, I think so.

5305. But do you think it is possible for the Government to avoid the great responsibility which they now carry in regard to maintaining the Gold Standard Reserve and other matters? Is it possible for them to leave that entirely to what I may call private enterprise?—I think that as soon as a little more gold has flowed into India there will be no necessity for the Government to have anything to do with it. I think the gold standard will be maintained in exactly the same way as it is maintained in every other country, without Government assistance at all. I think that as soon as there is a little more gold in the country there will be no necessity for a Gold Standard Reserve or for anybody to think or trouble or worry about exchange—not the slightest. There will be sufficient gold in the country to provide for export whenever the trade balance turns against India, and in that case there is nothing whatever for the Government to worry about as to foreign exchange or maintaining even the standard.

5306. But during the interval during which that happy state of things is being brought to pass, Government must maintain their responsibility and control?—Yes, I think so.

5307. Therefore, you do not really think that the conditions are the same as in Canada, for instance?—Not yet.

5308. You hope they may be?—They will be, I feel sure, in a very few years. My own view is that they would have been so 10 years ago had it not been that the gold standard policy has not been carried out. There was a Committee which sat in 1898 which reported exactly what should have been done. Had the Fowler Committee's policy been carried out there and then on the spot, the gold currency and standard might have been effectively established many years ago. That is my view.

5309. I think with regard to the balances your view is that a total of 10 millions as a minimum balance is sufficient, of which seven millions should be held in India and three millions in London?—I said so.

5310. And I think you said you based those figures upon some actual returns for a particular year which you would let us have?—Yes.

5311. I believe Sir James Westland—I suppose it is 15 or 20 years ago—fixed upon 8 crores as the minimum balance in India?—I do not know.

5312. That, of course, has not been worked to, because it is said, and truly, that India has developed enormously, the number of treasuries has greatly increased, and the trade of the country, and so on, and therefore that is a figure that has been treated as obsolete. You do not hold that view?—I do not know at all. I did not know that that figure had been fixed on or discussed at all. I was not aware of that fact.

5313. Do you think that in the management of treasuries, sub-treasuries, and district treasuries the Government do not take sufficiently into account the modern improvements in railway facilities and telegrams, and so on?—I have not gathered any impression that the treasuries are badly managed.

5314. But I gather that your view is that the balances are too large?—Yes; it is very much easier now by means of telegrams and railways to shift money from treasury to treasury than it was fifty years ago.

5315. You have not yourself made any careful examination of those treasuries—the daily transactions and the maximum and minimum balances which they hold?—Not any further than is revealed in the Paper Currency Reports, which I have frequently read and studied.

The witness withdrew.

At the India Office, Whitehall, S.W.

THIRTEENTH DAY.

Friday, 11th July 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

The Hon. MONTAGU DE P. WEBB, C.I.E., recalled and further examined.

5316. (*Sir Shapurji Broacha.*) The recommendations of the Indian Currency Committee made 14 years ago, which were accepted by the Secretary of State and the Government of India in 1899, should now, you consider, be carried out in their entirety?—Yes.

5317. I think you have changed your opinions very much in the last 14 years?—Yes, very much.

5318. Do you wish that the recommendations of the Fowler Committee should be treated as sacrosanct in 1913, although that is not what you thought in 1898?—I have changed my opinion since 1898, for very good reasons I may add.

5319. The members of that Committee were human like yourself; should we not therefore now be guided by the light of experience? That was the greatest experiment of all ages, and we have stumbled badly in many places; but we have now the light of experience in other countries, and we have the experience of what has happened in India. May we not, therefore, suppose that it is necessary to have a change in some respects?—Certainly, if it is proved necessary.

5320. Then, of course, the report of the Fowler Committee is not sacrosanct?—In my opinion the recommendations are sound.

5321. The Committee was composed of human beings like yourself?—In my opinion, events have proved that the recommendations of the Committee were sound and correct.

5322. They are sound in your opinion now?—Yes, because the production of gold has, since that period, so very enormously increased. That is why I have changed my opinion.

5323. You say in the four years, 1910, 1911, 1912 and 1913, there has been an excess of 20 millions over the budget estimates; is that not so?—Yes, there has been an excess of revenue collected of 20 millions.

5324. You said that though you heard Sir Robert Chalmers state that of that amount about 14 millions were non-recurring windfalls, and after knowing that not only will one of the windfalls, opium, as a windfall wholly disappear, but even any revenue from opium is likely to disappear, as I presume you will admit?—It looks like it.

5325. Should you not therefore deduct the 14 millions from the 20 millions, thus leaving only six millions of excess revenue?—I cannot say from memory how much of the 20 millions represents collections from opium sales.

5326. Do you think a million and a half of excess revenue per year in a progressive country of 320 million inhabitants who are increasing in prosperity by leaps and bounds is a great excess?—No.

5327. I think it means a very closely made budget, for which whoever made it deserves great credit?—In spite of the warnings of the time about the opium revenue? I think at the time the extra silver taxation, &c., was put on, it was pointed out very clearly to the Government of India that the opium revenue would increase in the immediate future and not diminish.

5328. You speak about the silver taxation, but I think that has been a blessing in disguise, because it has raised the accumulations by 11 per cent.?—I cannot speak to the percentage from memory.

5329. It has enriched the Indian people to that extent?—I do not regard the extraction of taxation in order to accumulate money in the Government treasuries as a way of enriching the people.

5330. You say that India has for some years been unnecessarily heavily taxed, and that the budgets have not been framed to correct this over-taxation. Is not India the lightest taxed country in the world? Could you name a country that is more lightly taxed than India is at present?—It depends on the way in which the problem is regarded.

5331. What it depends on is the income of the country, is it not?—If the taxation is regarded in reference to individual incomes, I should think India was heavily taxed; but if the amount of revenue extracted from a country of that size is only taken into consideration, then the country is lightly taxed.

5332. Japan resembles us in wages, and Japan, of course, is not a very rich country. The taxation in Japan per head is 17 rupees, and the taxation per head in India is 3½ rupees; what do you say to that?—I am not surprised, in view of the recent Russo-Japanese war.

5333. Then why should you say that India is heavily taxed? It is not a heavily taxed country at all. Take, for instance, the taxation in Egypt, which you might call a poor country; there it is 21 rupees per head. In Turkey even it is 14 rupees per head. You have asserted that more money had been collected in India than was necessary?—Than was necessary for the purpose of meeting expenditure.

5334. Yet India has a fifth of the taxation of Japan, a fourth of the taxation of Turkey, and a sixth of the taxation of Egypt, per head of population; do you accept those figures?—I think it is quite possible.

5335. I think you must confess that there is not a country so lightly taxed as India is; if you do not admit it, show me one. You are a public writer, and you know Indians have taken up your cries, and I want you to prove that cry that India, compared with any other country in the world, is heavily taxed?—I do not

think that is relevant to the assertion which I make in my note.

5336. Talking of taxation, you must say that India is the most lightly taxed country in the world, must you not?—I think for its size that is probably correct, although India is also the poorest country in the world per head of population.

5337. It is just as poor as Japan, and the wages of both countries are the same?—I do not regard low wages as a test of prosperity.

5338. Compared with any country in the position of India, India is the most lightly taxed country of the world?—Per head of population; and, as I say, it is also the poorest country in the world, per head of population.

5339. I compare India to a country that is equal to India in many respects, and that country is Japan; next comes Turkey, then Egypt, then Russia. We are only taxed one-fourth of what they are taxed, or one-sixth, or one-seventh, or one-tenth. I have taken here the poorest countries, so I think it must be admitted that India is a very lightly taxed country?—Undoubtedly it is per head of population, and, as I have said more than once, it is also the poorest country in the world per head of population.

5340. Is it better than Japan in wages?—I do not know.

5341. Our wages and Japan's wages are the same in the mills?—I doubt it very much.

5342. Then prove it?—It is possible that the wages of mill hands in Bombay may be higher than the wages of mill hands in Japan, but India is a very great agricultural country, and I do not regard the wages of mill hands in Bombay as necessarily a test of the prosperity of the whole country.

5343. As a general proposition, we are large employers of labour in the centre of India, and we are giving 200 per cent. more wages than we were giving six years ago, or even 10 years ago, and wages have risen about 300 per cent. even in the Punjab?—Some wages have.

5344. In which part of India would you say that the wages are poorer than in Japan?—I make no such assertion.

5345. I say, taking the wages per head, and comparing everything, India is the most lightly taxed country in the world?—I think possibly it is per head of population.

5346. You say "possibly it is," but can you prove otherwise?—I have not the material at my disposal at this moment to enable me to examine the wages of all the countries of the world; but I think it is quite possible that India, per head of poulation, is more lightly taxed than any other country.

5347. You say in paragraph 4, Part I. of Appendix XXI. (page 550), "On the contrary, in a country "that is notoriously handicapped for want of ample "supplies of cheap capital, and where the rates of "interest and discount rise to heights unknown in "any other part of the Empire," and so on. Will you state in which other countries of the Empire except England, the rate of interest is higher than in India?—I do not know any country where it is higher than in India.

5348. I am talking of Canada, I am talking of Australia, I am talking of the West Indies, and all those places; is the rate of interest there higher than in India?—I do not think so.

5349. I can prove my point by one personal instance of yours. Though the bank rate was 8 per cent. in March or April, your firm could have borrowed at 4½ per cent. or 5 per cent. at any time during the last four or five years?—Are you referring to last March?

5350. You can take any March in the last five years. Your firm has been able to borrow for 12 months at 4½ or 5 per cent. for the working of its mills. Show me any mill in Lancashire that could borrow for 12 months at 4½ per cent.?—I cannot show you any mill in Lancashire. I do not know what they are paying for their money in Lancashire.

5351. I am talking of your firm, and I tell you they are able, all through the year, even when the bank rate is 8 per cent.—just now it is 6 per cent.—to borrow at 4½ per cent. Even when the bank rate was 6 per cent., you could have borrowed for 12 months at 4½ per cent., and there is not any other part of the Empire where you could borrow under 6, 8, 9, 10, or 11 per cent. according to the distance, whether it is Western Canada, or Eastern Canada, or Northern Canada, and so on. Do you know that the best firms in Australia pay 7 per cent. for call money?—I cannot say what the best firms in Australia pay.

5352. Then you make this statement, but you cannot prove it. You, being an Englishman, have stated, and the natives wanting a cry are taking it up, that India is the most heavily taxed country, and that the rates of interest in India are more heavy than in any other part of the Empire. I think you have made that statement without having any proof of it in your own hand?—I believe the statements which I have made in my note are correct.

5353. How are they correct? You cannot prove it?—So far as my experience goes of the rates of interest that are paid in the Colonies, I have never heard of such high rates being paid as I have known in my experience being paid in India.

5354. Give me an instance of your experience?—In which country?

5355. I am talking of the Empire. I suppose you do not mean England, but you mean Australia, or Canada, or the West Indies, or those places. Can you show me where your firm can borrow for a year at 4½ or 5 per cent.?—I do not regard my own firm's transactions as a criterion of what money can be raised by other firms.

5356. There are gentlemen and officers who pay 50 per cent., but you cannot compare them when you are talking of the rate of interest commercially. Seeing that India is so lightly taxed, and that India requires a great many public works, such as sanitation and education, for the development of India, should not the Finance Minister continue to budget a little higher rather than a little lower, in order to carry out all this work without borrowing?—If the Government of India propose to raise money by taxation for the construction of capital works, that is a policy which has a great deal to be said in its favour; but, up to the present, in preparing their budgets, the Government of India have not in their budgets stated that they are raising money for expenditure on capital works. If the taxation is so adjusted as to produce large surpluses especially to be devoted to capital works, I think there is a great deal to be said for it.

5357. If they have, as you say, budgeted for too much, then they have squandered the money; on what have they spent it?—I did not say the Government of India has squandered the money.

5358. Has the Secretary of State squandered the money?—I think the Secretary of State has not used it to the best advantage.

5359. I agree with you that money ought to have been lent in India where the rate of interest is higher. Now the Government of India have about 7 crores or 10 crores in excess of requirements in the treasuries, can they lend more than 7 crores in India?—Certainly, in present circumstances, I should think not.

5360. Then they have not been doing anything wrong in not keeping more money in India?—I hold the contrary opinion.

5361. You were stating yesterday that they should lend to the exchange banks. The Government would not lend money under 6 per cent., or something like that, so why should the exchange banks borrow from the Government of India instead of bringing that money from England, especially as you say that they could not lend more than 7 crores now under present circumstances?—I do not think they could.

5362. How should they use the 18 millions? Should they let it lie fallow in India just for the delectation of the people of India; should they hold these 18 millions there without interest?—I am not aware that the Government of India have attempted to lend 7 crores on the market, and I am not, therefore, in a position to say they could not have lent more. That was only a rough estimate on my part. Possibly

if 7 crores had been lent to the public, 8 or 9 or 10 crores might be lent.

5363. Let me tell you—and I put my experience against yours—that the Government of India could not have lent 5 crores?—It is quite possible.

5364. Do you know that from 1893 to 1895 this country, England, lent money because they had no scope for it at five-eighths of 1 per cent. for a year?—Quite possibly.

5365. And at half of 1 per cent. for a year?—That is quite possible.

5366. They have to employ their money; and 3 per cent., if they cannot employ their money elsewhere, is six times as large as what the English banks got between 1893, after the Baring crisis, and 1896?—I certainly admit that three is six times as much as one half.

5367. That lasted for three years?—I do not know that.

5368. Of course, you must confess that they had to lend the money, or it would have been lying fallow in India?—I cannot say that the whole of it would have been lying fallow in India; some portion might.

5369. Of course, it was the policy of Government not to lend, and I think it was an unfortunate policy which has brought about all this trouble; but still I think they could not have lent more?—I would not say that until I tried how much they could have lent.

5370. All the witnesses who have preceded you, including bankers of experience, have said that they could not?—I think it is quite possible that it would be difficult to lend at 5 or 6 per cent.

5371. So I think you can say that the Secretary of State was right in lending at any rate of interest; I do not say whether he lent at the best rate or not—that is another question—but the Secretary of State was right in lending money so as to get some interest?—I think the Secretary of State would have done better to have sent it back to India and have tried to lend in India first.

5372. But he had seven crores there already?—That money was not lent out for the purposes of India.

5373. The Secretary of State could have ordered that money to be lent?—He could have done so, but he did not.

5374. Why did you take the Secretary of State's lending? Why did you not take first the Government of India's lending in India what they had in excess?—They should have done so.

5375. I say you should have done so?—If I had taken up that policy several years ago, I should certainly have argued that.

5376. They could not lend upon security more than 11 millions in this country for a long time?—I do not know about that.

5377. This is the richest country in the world, and yet at one time they could not lend more than 11 millions on security?—I noticed that the India Office could not do so.

5378. Taking the two countries together, India and this country, do you think India could have done so?—I cannot say.

5379. You are a very intelligent writer; can you not say that?—I cannot say what the Government of India might have done had they tried.

5380. I think it seems that you have made statements without giving adequate proofs?—I think I have made sufficient inquiries.

5381. You cannot give proof of that statement for one. You say the Secretary of State should not have borrowed three millions when he had so much money in hand last year?—I think he should not.

5382. Your exact words are—this is in paragraph 10, Part I. of Appendix XXI. (page 553)—"Last year, notwithstanding the vast sums of public money at the "India Office's disposal, and in spite of the fact that the "London money market was faced with more demands "for capital than it was able conveniently to meet, an "effort was made to borrow 3,000,000*l.* in London "on behalf of the Government of India?"—That statement is true.

5383. Seeing that the Government of India's credit is not so good in this country as it was, were they not right, having so much to do in connection with public works and not being able to borrow in India, to borrow, when they could borrow at a good rate, as much money as they could in this country?—I do not think there was any necessity to borrow at that period.

5384. Do you know that they could not borrow to-day at the same rate?—Quite possibly.

5385. Do you know that that same 3½ per cent. stock has gone down 7 per cent. since the last borrowing?—Quite possibly.

5386. What do you do in private business?—I never borrow when I am full of money.

5387. You borrowed for your railway a year before your concession was given to you?—No, I did not borrow at all.

5388. You took money from the shareholders?—I did not borrow. I desire to put it on record that I borrowed no money, and that I did not ask the public to lend me any money in advance in connection with any of my business concerns.

5389. If money is required, you say in paragraph 12, Part I. (page 553), "I am of opinion that the Government of India's floating cash balance ought, in the "interests of economy, to be kept down to a maximum "of 10,000,000*l.*, of which 3,000,000*l.* might be kept "in the Treasury in London, leaving the balance of "7,000,000*l.* . . . to be held in the treasuries and "Presidency banks in India." Then you say that at anything like a time of necessity they can take money from the Currency Reserve; but they would have to pass an Act for that, would they not?—Yes.

5390. They could not do it offhand?—No.

5391. The Bank Act has not been suspended since 1866, but, supposing we fall short, they would have to suspend the Act and take the money from the Currency Reserve?—Yes.

5392. Is that not a very difficult and very long way to go in order to have starvation supplies given to them?—I do not regard these figures as starvation supplies.

5393. I will give you one public instance. The Bombay Port Trust required a balance of a crore-and-a-quarter for carrying on their works, and the Secretary of State has to provide for about 12½ millions, and has to be able to supply funds for all the necessaries; do you think in face of these facts that allotment would be correct?—I think it is sufficient.

5394. On what basis do you go? When a corporation like the Bombay Port Trust require a crore-and-a-quarter or thereabouts to carry on their business, do you think the Secretary of State should be put on a par with a port trust?—I think the figures I have given are large enough.

5395. Do you know that India has a debt of about 500 millions on railways and other things, for which the Government of India is responsible?—No, I do not know that.

5396. It is so?—I do not think it is so.

5397. Then will you kindly tell me what it is?—I believe the Public Debt of India is about 270 millions.

5398. Including the railway debt, for which we are responsible?—I think that is about the whole of the debt. There is about 180 millions of debt in this country, and roughly about 90 millions of debt in India.

5399. That is not all; there are the railway companies?—I cannot say from memory exactly what the railway capital comes to.

5400. I think it is 375 millions for railways alone; so we will put it in round numbers as something between 400 millions and 500 millions. You have not gone into that matter, I suppose?—As I have said, I cannot tell you from memory the capital of the railways.

5401. Do you know what the Public Debt of Russia is?—No, not without making a reference.

5402. I suppose it is 500 millions; in order to protect that debt and the interest, do you know what the Russian Government keep in gold outside Russia?—I could not tell you from memory.

5403. Sixty millions or thereabouts, and, further, to protect their commerce and other things, the Bank

of Russia holds European bills or has in Europe 21 millions, do you know that?—I cannot speak to that from memory.

5404. It is in yesterday's "Times"; shall I read it to you?—I am perfectly prepared to take these assertions as being correct if they were in yesterday's "Times."

5405. Do you know why the Russians keep so much gold outside their country?—Because their credit is not so good as ours, I take it.

5406. Do you know that there are people in Russia who have the same cry as yourself, and that the Russian Minister defended his action by reference to the Russian foreign trade?—I am not surprised to hear it.

5407. And almost all the papers here have accepted it?—I think that policy might find a good deal of support in London.

5408. Is Indian commerce such a light thing that you would not give it every possible facility in the money markets of the world?—I have a large personal interest in Indian commerce myself, and I do not believe what I think you are suggesting is necessary.

5409. In Part II., paragraph 2, of Appendix XXI. (page 555), you say: "With the Indian mints open to the "free coinage of silver, and the sterling value of the "rupee depending entirely on the sterling price of silver "in London and New York, no better means of pay- "ing India's sterling debts could possibly have been "devised than weekly auctions in London of a portion "of the stocks of rupees accumulated in the Treasuries "in India in the course of the collection of the revenues "by Government. The competition of the public at "these weekly auctions enabled Government to secure "the best possible sterling prices for such rupees as "were auctioned, and the system was therefore "admirable in every way"? What is the difference now?—The mints are closed to silver.

5410. But up to 1872, the time when Germany demonetised silver, the ratio of 15½ of silver to 1 of gold remained fixed and constant, just as now between 1898 and 1913 the ratio of gold standard has remained fixed at 16*d.* of gold to 1 rupee; so I think there is no difference, and that if it was admirable then it is admirable now?—That is precisely my contention, that the circumstances have entirely changed, that there is every possible difference, that the mints being closed to silver the value of silver rupees in India is entirely divorced from its value as a marketable commodity, and that therefore there is no reason whatever to auction rupees at this moment.

5411. I think there was a very good reason then, because they could have the silver minted or sold at that ratio?—There was every reason for auctioning rupees when the mints were open, but there is no reason for auctioning when the mints are closed.

5412. Do you want the mints to be opened for the Secretary of State to commence again?—For the free coinage of silver? No, certainly not.

5413. You say the auctioning was all right?—Before 1893 it was all right.

5414. There was a ratio, and you admit that system was most admirable?—Yes, before 1893.

5415. Suppose the Secretary of State were to start now and open the mints in India, would the system be most admirable?—I do not think the Secretary of State should re-open the mints to the free coinage of silver. I think that would be undesirable.

5416. You have said somewhere that fluctuations in exchange prevent people from moving their capital to and fro between England and India as freely as they might otherwise do. What about the fluctuations of exchange between the United States and England?—They are very different.

5417. How is that?—Because the fluctuations in the case of India are liable to be affected by the action of the Secretary of State, whereas in the case of other countries the movements in exchange are not liable to be affected by official interference.

5418. What is exchange? I take exchange to be the transfer of wealth from one country to another, with the additional cost of freight, insurance, and commission?—I do not know that I can accept that definition exactly as it is made.

5419. Will you describe how it is different from the case of France, say? Does it cost you more than it would cost between France and England, or between France and the United States, or between France and Egypt?—I can only say that the difference between the two cases is that, in the one instance, the United States or France, movements in exchange take place in response to the requirements of trade only, whereas in the case of India movements in exchange take place in response to the activities of the Secretary of State.

5420. What more would you pay than if you had to transfer your wealth from Russia to England—what more does it cost than the freight, insurance and commission?—I really cannot say.

5421. You are a merchant of great experience who has been doing a large export business, and you know that buying and selling actually depends on a difference of one-sixty-fourth?—Yes, I do know that fact.

5422. It is so?—Sometimes it is so.

5423. And that depends on the rate of interest?—Yes.

5424. Therefore, I say that was a very wide statement to make, when you tell the people of India that they are not on a gold basis, and that they cannot transfer their wealth between one country and another?—I never made any such statement that the people of India cannot transfer their wealth from one country to another.

5425. Here it is; it is an extract from one of your letters:—"State-manipulated fluctuations in exchange "prevent many people from moving capital to and fro "between England and India as freely as they might "otherwise do." Who are the people that told you that—not the banks?—I think I understand what Sir Shapurji is driving at. What I have stated is that, owing to the interference of the Secretary of State with exchange, the public do not so readily transfer temporarily their money backwards and forwards to India as they would do if there were no Secretary of State interfering with exchange. I make that assertion from my own personal knowledge, as I am frequently engaged in moving money temporarily backwards and forwards.

5426. How is it any different to what would be the case with the United States? Would not the man in the United States be interfered with in the same way?—If I were to transfer money between this country and the United States, I should have nothing to reckon upon except the movements of commerce, which I should be able to gauge as well as anybody else; but in the case of India I have to gauge not only the movements of commerce but the eccentricities of the Secretary of State, and it is those eccentricities which prevent me from taking the risk.

5427. It is the same movement that moves exchange in India as in the United States?—No, it is not the same.

5428. Yes, it is?—I differ.

5429. Then in one of your letters you say, "In "1905–7 the Government of India coined over "40,000,000*l.* worth of new silver rupees, thereby "stimulating and contributing to the rise in prices "in India that brought so many of the poorest "classes to the verge of starvation." Do you know that in 1905–6 eight millions and in 1906–7 ten millions of silver were brought into India, so that that was not a correct statement?—I understand your question to be this—that because 18 millions worth of silver was brought into India, it was not possible to manufacture 40 millions worth of rupees out of it.

5430. Yes, that is it?—I should think that with 18 millions sterling worth of silver it would be possible to coin very nearly 40 millions worth of rupees, because the value of the rupee in metal is only about 9*d.* or 10*d.*

5431. It was 18 millions brought in, and what they turned out in rupees was 40 millions?—I think both figures are probably correct.

5432. (*Chairman.*) What you meant was a face value of 40 millions?—Yes. Possibly the 18 millions of silver is taken at its market value.

5433. (*Sir Shapurji Broacha.*) Out of those 40 millions, 13 millions would go to the Gold Reserve?—Some proportion would.

5434. Do you think that contributed to the rise of prices?—Yes.

5435. All the commodities that grow in India are exported, and it is the export price, that is, what the exporter is willing to pay, that makes the price?—I cannot acquiesce altogether in that suggestion.

5436. I can aid you in that. When there were no railways wheat was used in the Punjab as fodder when there was an excess of supply and they could not use it for food; but to-day the man in Germany who buys Indian wheat pays more for it than the Indian people do, because he has to pay freight, insurance, commission, tariffs, and all that sort of thing; so India has the advantage in price over the countries which buy Indian produce. How can you say, therefore, that prices are made by excess of currency, or redundancy of currency?—I think excess of currency does affect prices.

5437. But not in India, because the prices are made by foreign buyers?—I think any excess of currency affects prices in India.

5438. Will you tell me how it affects prices? If Germany wants to buy your wheat at six rupees, and you say Germany shall not buy it at six rupees; why do you not put tariffs on the export?—I do not favour a tariff on exports.

5439. I think you are wrong in your statement that excess of currency contributes to the rise of prices?—I hold the contrary opinion.

5440. When do you say there was a great redundancy of currency in India, taking any period you like to name from 1898 or 1899 up to 1913?—I think the silver currency was redundant about 1893, 1894 and 1895, and I think the silver currency was also redundant about 1906 and 1907.

5441. That brings me to another point you made in reply to the Chairman. In 1893 you said the exchange went down because the currency was flooded with rupees?—That was one of the reasons.

5442. Do you know that Russia is not a debtor country, in so far as the export and import of merchandise is concerned?—I do not know.

5443. It has been stated that she exports about 70 to 75 crores more than she imports; so that Russia has just that excuse which you put forward for India, that India was not a debtor country, in a sense that her exports are larger than her imports?—I am not quite sure what the position is with regard to Russia, without making references.

5444. Do you know that Japan has almost all her gold in this country—from 27 to 35 millions?—I am not quite sure what the amount is, but I do know that Japan has a good deal of gold in this country.

5445. Should not that have some influence on the amount which the Secretary of State should have in his hands?—I do not think that Japan's financial position is at all a safe guide.

5446. The United States exports from 100 to 150 millions, which is about 225 crores, more than they import. Do you know that it is in yesterday's "Times" that the States exported 124 millions more in 11 months of last year than they imported?—I have not read yesterday's "Times" sufficiently carefully to be quite certain about it. I did not notice that passage.

5447. (*Mr. Keynes.*) Under Part I. of Appendix XXI. (pp. 550–4), I think I understand what your position is, but I have got one or two questions to ask. As regards paragraph 8, which relates to the sums of money which have been borrowed and repaid by various firms, do you mean to suggest that India's borrowers have held sums anything like those continuously since 1908?—Not necessarily.

5448. Then what exactly do you mean to suggest by those figures?—I mean to suggest that there have been loans continually running apparently for five years.

5449. Do you mean merely that those firms had some loans, not that they had loans of one million and upwards?—Not in one loan, but that they borrowed sums during the year and repaid sums during the year amounting to one million. If the loans were for periods of three months, we will say, they might conceivably be for 250,000*l.* each time, which would make one million borrowed in the year. If money was borrowed for shorter periods, it might perhaps be only 100,000*l.*

5450. I was thinking of this sentence, "The above "borrowers appear to have been the recipients of "what amounts practically to standing loans, totalling "in all several millions sterling, for a period of over "five years." In that sentence you do not mean us to infer that those firms had standing loans of several millions for over five years, do you?—No.

5451. I wanted to get that point clear, because it seemed to me that the sentence bore the other interpretation?—I might perhaps be permitted to explain that the figures and the exact words which I have used are those which were given in Parliament in answer to a question put, I think, by Mr. Gwynne last November; but I can verify the question and tell you exactly.*

5452. I do not want that, thank you; it was only the inference you were drawing from these figures I wanted to be sure about. In paragraph 12 of Part I. of Appendix XXI. (page 553) you propose that the Secretary of State should have in London three millions as a maximum balance; do you mean by the phrase "maximum balance" that, except on rare occasions, his balances should never exceed three millions?—Yes.

5453. Did you arrive at this figure because you found that his balances had never fallen below three millions?—I arrived at that figure because I found that on several occasions the Secretary of State held a balance of about four millions.

5454. Do you argue that what experience shows to be a safe minimum must therefore be a safe maximum?—I infer that what has been satisfactory in the past, namely, a balance of four millions——

5455. As a minimum?—I do not know whether it is a minimum or not, because the official publication only gives the balances at certain periods; for example, I find that on the 31st March 1893 to 1901, on the 31st March 1903, on the 31st March 1907, and on the 31st March 1908, the Secretary of State held balances of about two to five millions sterling.

5456. May I put it in this way—that because four or five millions have on certain occasions been found sufficient, therefore three millions would be sufficient on all occasions?—That is somewhat the way in which I argue.

5457. Now I will turn to Part II. of Appendix XXI. (pp. 554–7). With regard to the remittances by sales of Council bills, I am not quite clear whether you criticise these remittances on the ground that they were made too soon, or on the ground that they should not have been made at all?—What remittances by sales of Council drafts do you refer to?

5458. I mean remittances by means of Council drafts in 1910, 1911, 1912, and 1913; do you argue that they were made too soon, or that they ought not to have been made at all?—I argue that no remittances over and above the requirements of the home charges should have been made at all. Of course the home charges must be provided for, but over and above the home charges I argue that no money should have been remitted at all, and that no Council drafts should, therefore, have been sold.

5459. That of the sums actually remitted a large part ought not to have been remitted at all?—Yes.

5460. You have probably noticed that on the 31st March 1913 the Secretary of State's balances were very nearly what they were on the same date in 1909, four years previously—they were just a trifle more. I think your memorandum does not give the figures for 1913?—I had not the Secretary of State's figures when I wrote that memorandum.

5461. The actual figures, I may add, were 8,372,900*l.* on the 31st March 1913, therefore they were very nearly what they had been four years previously. I understand that of the sums remitted during that period, you hold that some part ought not to have been remitted?—I find that the balance four years

* *See* Hansard, Vol. XLIII., pages 1461–2 and pages 1759–60.

previously (*i.e.*, in 1910), held by the Secretary of State, was over 12 millions.

5462. 1909 I am speaking of?—In 1909 it was 7,983,000*l.*

5463. That is very nearly the same?—Yes, it is.

5464. Would you argue that during that period sums have been remitted which ought not to have been remitted?—Yes.

5465. They were all spent; which of the purposes on which they were spent do you think were improper?—I do not know in what direction they have been spent.

5466. I am putting on one side the sums credited to the Gold Standard Reserve and to the Paper Currency Reserve, to which I am coming later on; apart from those amounts all sums remitted have been spent?—I only know, so far as you have just this minute informed me, that the balance has been reduced to eight millions. That is all I know. But even if you tell me the balance has been reduced to eight millions I am still in the dark as to how it has been done and why it was not done a year or two before.

5467. I understood you to say that the remittances were not merely sent too soon, but that they ought not to have been sent at all?—So I thought.

5468. I am not now asking whether the Secretary of State remitted at the right date or not, but whether, at whatever date he remitted, he spent the money for improper purposes?—I cannot say that he spent it for improper purposes, because I am not aware where this money has gone.

5469. First of all, the home charges; you admit that they are all right?—Yes.

5470. Secondly, the purchase of silver, and I think you allow that?—Yes.

5471. Thirdly, there is the redemption of temporary debt; is that a proper purpose?—Yes.

5472. And fourthly, there is the expenditure on railway material?—Yes.

5473. Putting apart the Gold Standard Reserve and the Paper Currency Reserve, practically every penny remitted during the past four years has been spent on one of those four purposes?—If that is so, it has been spent on proper purposes, and the only criticism in that case that I should offer is, why was not the temporary debt paid off many years ago instead of only last year?

5474. Your criticism then comes down purely to this point, that the Secretary of State has done certain things at a later date than he ought?—That he has brought money to England several years in advance of his requirements.

5475. But it does not amount to any more than that?—That is one way of putting it. I can admit that in a sense the action of the Secretary of State resolves itself into bringing to this country several millions some years in advance of his own requirements. That appears to me to be very grave mismanagement.

5476. I only wanted to get exactly what your position was, because there are at least two different lines of criticism which to my mind are rather mixed up in your memorandum, namely, that through excess of precaution he postponed doing things which he could have done sooner, and the other point, that he was draining away money from India and doing various terrible things to India when he ought never to have brought the money from India at all; but now I understand that the second part is not your charge?—Yes, those are my charges—doing things that he ought not to have done.

5477. Then in regard to this money which he ought never to have brought at all, which are the ways in which he has used it that are improper; I come back to that?—I was not aware how it had been used before I received the information that you yourself have given me. If the money has been used simply for home charges, for the redemption of debt, for the purchase of silver, and for railway material, it has been used properly, except that the debt might have been redeemed a year or two earlier than it has been redeemed.

5478. If I am right that it has all been used for those purposes, then that part of your criticism falls to the ground?—I do not understand how it falls to the ground, because even if the money has eventually been correctly disposed of——

5479. I do not say that particular part of the proposition falls to the ground, only the part of your criticism that the money has been remitted in excess. I am not dealing now with your criticism that it has been remitted at the wrong time, but with that part of your criticism which says it ought never to have been remitted at all. That, I think, falls to the ground if the only purposes for which it has been spent are those I have named?—If all the money has been properly disposed of, that portion of the criticism is in a sense disposed of.

5480. If it has been spent on the purposes I have named, then it has been properly disposed of?—It has been properly disposed of in the end, eventually. I have never asserted for a moment that the Secretary of State has improperly disposed of the money. What has occurred is that he has accumulated vast sums for which he had no need, and then, under the effect of repeated criticisms, he has at length disposed of that money, but only under the stimulus of repeated criticisms.

5481. When you say improperly remitted, you mean remitted too soon?—Remitted years ahead of his requirements.

5482. Not remitted too much?—He has apparently disposed of it in the end.

5483. I come now to your proposal about fixing the price of Council bills. In your memorandum you have suggested that it should be fixed at 1*s.* $4\frac{3}{32}d.$ or 1*s.* $4\frac{1}{8}d.$; but in your evidence to the Chairman you suggested that it should be fixed at 1*s.* $4\frac{1}{16}d.$ Which of those figures do you wish to maintain?—The figure that I suggest for the home charges is one that shall be below the gold point. Of course, the gold point varies from month to month, and therefore it is impossible for me to give the exact figure; but I should think that about 1*s.* $4\frac{1}{16}d.$ would be a workable point for the home charges.

5484. I understood you to propose that the Secretary of State should put up a brass plate?—Yes.

5485. On which he should say that at all times of the year there should be a certain fixed rate for Council bills?—Yes. I think it should be 1*s.* $4\frac{1}{16}d.$

5486. That 1*s.* $4\frac{1}{16}d.$ would be the fixed rate?—That rate should be a stable rate, but it would, of course, be liable to alteration.

5487. It would be maintained all the year?—Possibly, or at the end of six months there might be reasons for amending the rate. I should say that 1*s.* $4\frac{1}{16}d.$ would be about the correct figure to start with.

5488. That is your proposal, that there ought to be sales of bills at all times of the year at that rate?—Yes.

5489. Are you aware that the rate got for these bills between 1910 and 1913 was almost exactly 1*s.* $4\frac{1}{16}d.$?—Quite possibly.

5490. So that your proposal would have made no practical difference?—It would have made a great deal of practical difference in actual business.

5491. The Secretary of State would have undergone the risk and inconvenience of undertaking this liability to sell at a fixed rate without getting any more for his bills?—That I cannot say.

5492. I understood your line to be that the Secretary of State should not put himself out to help trade, but that he should get the most profitable rate for his bills?—Yes.

5493. If your policy had been followed, he would have undertaken certain risks, and would have got no more profitable rate than he actually got?—That I cannot say. I cannot see the risks.

5494. Taking my figures, if he did in fact get 1*s.* $4\frac{1}{16}d.$, that would be the case?—1*s.* $4\frac{1}{16}d.$ is about the specie point now, but a few years ago the specie point was considerably higher—it was 1*s.* 4*d.* and $1\frac{1}{2}$ annas, and there was a time when it was 2 annas, and there have been times when it was $2\frac{1}{2}$ annas—I am speaking in Indian phraseology; I should say $\frac{5}{32}$. If the Secretary of State has only got an average of 1 anna now, $\frac{1}{16}$, over 1*s.* 4*d.*, it is clear that he is doing

right, but if 1 anna is an average which corresponds over a period of years, then he has got a poor rate.

5495. I am speaking of the period from 1910 to 1913?—I think from 1910 to 1913 the average rate ought to have been more than 1 anna, over 1*s.* 4*d.*, possibly $1\frac{1}{2}$ anna—$\frac{3}{32}$.

5496. Taking your figures, if he had put up his brass plate, he could not have got more than that?—He might have got $\frac{3}{32}$ four years ago; that is, his brass plate might have shown the rate of $\frac{3}{32}$. His brass plate, I suggest this year, should show 1 anna, but four years ago I think the gold specie point, the import point into India, was nearer $\frac{1}{8}$ than $\frac{1}{16}$.

5497. I was trying to argue it on your figure, but of course if you take a different figure, I shall have to use different arguments. I will pass from that to a further point connected with it. Suppose that the Secretary of State fixed some rate, which may be 1*s.* $4\frac{3}{32}d.$, or some other rate, and he does not sell enough bills to meet his various charges, how is he to make up the difference?—Ship home sovereigns.

5498. These sovereigns he has taken at the rate of 1*s.* 4*d.*, that is, he has issued rupees against them at the rate of 1*s.* 4*d.*?—He may not necessarily have issued any rupees against them at all. They may be sovereigns that the public have imported.

5499. How else have they got into his treasuries?—Through the collection of taxation.

5500. At the rate of 1*s.* 4*d.*?—I cannot tell what the rate is. The public import sovereigns when it pays them; sovereigns are paid to the Government in the form of taxation, and the Government then finds itself in possession of the sovereigns in its treasuries.

5501. The sovereign is legal tender for so many rupees at 1*s.* 4*d.*?—Yes.

5502. Therefore the Government could not receive it in payment of taxation at any other rate?—No.

5503. It therefore receives this gold at 1*s.* 4*d.*?—That is so as between the Government and the public, but the public would have imported the sovereigns at a different rate to the 1*s.* 4*d.*

5504. I am speaking of the Government. The cost of bringing those sovereigns back would be $\frac{1}{8}d.$, would it not?—Something like that.

5505. So the sovereigns that would have to be brought back to the Secretary of State would bring in money at the rate of 1*s.* $3\frac{7}{8}d.$?—Yes.

5506. You are proposing that he should stick out for 1*s.* $4\frac{3}{32}d.$, and then for the balance which he cannot get at that rate, he should bring sovereigns home at what works out at 1*s.* $3\frac{7}{8}d.$?—Yes.

5507. And you think that policy would lead to his getting a better average rate than his present policy?—Yes. My reason is that, roughly speaking, in four years out of five, the balance of trade is in India's favour, so I take it that in three years out of four, or in four years out of five, the rate of exchange would always stand at the gold import specie point, or in the neighbourhood of it, and that only on rare occasions, one year in five, would there be a risk of some small portion of the Secretary of State's home charges having to be shipped back in sovereigns. That is the risk.

5508. Suppose that seven-eighths were sold at 1*s.* $4\frac{3}{32}d.$, and one-eighth had to be brought back in the way I have described, will you take it from me that it would work out at about the same as if he had sold them at an average of 1*s.* $4\frac{1}{16}d.$, so that if only one-eighth had to be brought back in gold, he would be no better off than he is at present?—If the figures that you state are correct, that would be so; but it would be a much more correct procedure, in my opinion.

5509. It does not look, however, as if there is much in it from the public point of view of getting a better rate of exchange?—I have not worked out these figures that you tell me of.

5510. They are an important part of the argument, but you have advanced this proposal of yours without working them out? What I mean is this: You are suggesting to me that the Secretary of State remits home seven-eighths of his home charges at 1*s.* $4\frac{3}{32}d.$, and one-eighth of his home charges at 1*s.* $3\frac{7}{8}d.$?—This might happen only one year in five.

5511. In the case of one-eighth he has to bring home the sovereigns?—That is equivalent to bringing home one-eighth at 1*s.* $3\frac{7}{8}d.$, and you assure me that the average between one-eighth at 1*s.* $3\frac{7}{8}d.$, and seven-eighths at 1*s.* $4\frac{3}{32}d.$, is about 1*s.* $4\frac{1}{16}d.$; if that is so, then there is not much in it in the year in which it occurred.

5512. This calculation is the only sort of calculation that you can make, if you are wondering which of these two policies would pay best?—That is so.

5513. But, nevertheless, you have not examined it?—Assuming those figures to be correct, that state of affairs would arise on an average one year in five and only one year in five, because only one year in five would it be necessary to ship home gold in payment of a portion of the home charges. So one year in five he would be no better off, he would merely stand at 1*s.* $4\frac{1}{16}d.$, but in the other years as a whole the exchange would be higher.

5514. You propose, therefore, that he should undertake this very serious liability of selling bills at all times of the year at a fixed rate, and run the risk of not being able to get his home charges back, for what would clearly be a mere tuppeny-ha'penny profit, even if he got it?—I cannot recognise the slightest risk whatever of any kind; on the contrary there is less risk than there is at present, because were this system in force, he would only withdraw from India the amount required for home charges—16, 17, or 18 millions, whereas at present the Secretary of State is withdrawing 25, 26, 27, or 29 millions wholly unnecessarily.

5515. But we have agreed that they are withdrawn for necessary purposes?—Not necessary purposes at the time they were withdrawn. They were subsequently made use of, but they were quite unnecessary at the time they were withdrawn.

5516. If less had been withdrawn in the earlier years more would have been withdrawn in the later years?—No, because the floating debt would never have been incurred, I take it, in London; and, therefore, there would have been no necessity to remit money home to pay off that floating debt.

5517. If it had not been incurred, then more money would have been required to meet the purposes for which it had to be spent?—Possibly, if the same balances had to be maintained, that is, if you hold that the level of the cash balances maintained by the Secretary of State is correct; but I assert that that balance was unduly heavy, and therefore that these loans were unnecessary.

5518. That is going back to another point, which we discussed earlier?—That is another point, I admit. May I state at this point that I cannot agree for one moment that the procedure of selling Councils at a fixed rate involves any risk on the part of the Secretary of State more than he is at present incurring? It does not involve the slightest risk.

5519. (*Sir Robert Chalmers.*) Is that so as regards the seasons? It might be that the season of demand for bills might not be the season at which the Government of India was in possession of rupees; you would admit that that would be the case, would you not?—Yes, that is a little additional risk.

5520. It might be a very important question?—That could be overcome.

5521. It would depend on a calculation of supply and demand?—Yes, but I imagine that would have to be overcome possibly by the shipment of gold.

5522. (*Mr. Keynes.*) Your proposal merely comes to this, that it is your opinion, not on the basis of any calculation, that if the Secretary of State brought over as much as he could at 1*s.* $4\frac{3}{32}d.$, and the balance, whatever it might be, in gold, that would lead to a better average rate of exchange than what he now gets?—Yes.

5523. That is not based on any calculation or any minute investigation of any sort?—It is impossible to base it on any exact calculation, because there is no profit in working out imaginary instances on past experiences. There is no profit in going back three

years, and saying that if 27 millions had not been remitted to England but only 16 millions had been remitted, and if exchange had been at such-and-such a point, and if this had occurred and that had occurred and the other had occurred, the result would be different. I do not think that is a profitable investigation.

5524. May I put to you one or two considerations that should be taken into account? Suppose you fix exchange at 1s. $4\frac{3}{32}d.$, then the Secretary of State would never sell any bills when there was gold available in Egypt or Australia, would he?—It depends on what the gold specie point was.

5525. When there is gold available there, I assume it would be below that?—Yes, quite possibly.

5526. In some years there is a very great deal available in Australia and Egypt, is there not?—Yes.

5527. An amount almost equal to India's balance of trade?—Quite possibly.

5528. In those years the Secretary of State would sell no bills?—I cannot say that.

5529. Or very few bills?—When you referred to the balance of trade, I thought you meant the balance of trade not taking the home charges into consideration, but over and above the home charges.

5530. Over and above the home charges the balance of trade is trifling, is it not?—I should not call it trifling.

5531. How much is it?—It varies between, I suppose, nothing up to as much as 10 millions or 12 millions.

5532. What is the average—about three millions or four millions; I think it is something small of that sort?—I should have thought, without looking into the figures, that the average would be nearer five millions in recent years. In recent years the balance has been very large, and in the years immediately following the closing of the mint the balance was very small.

5533. A great part of that balance is needed for payments of interest and so forth in England, and what you may call the available free balance is what the Secretary of State draws?—I think there is a much larger balance due to India than what the Secretary of State draws.

5534. How is that used?—It is liquidated by the shipment of sovereigns to India, and over 20 millions, I think, went in last year.

5535. That brings us to a point at which we can argue. I was thinking of the additional amounts available over what are now available. When there is a great deal of gold in Australia and in Egypt, all that gold would go and the Secretary of State would not sell bills?—Not if the Secretary of State's rate was fixed at too high a level.

5536. If fixed at 1s. $4\frac{3}{32}d.$ in such years, therefore, he would be in difficulties about selling the full amount?—If his rate was too high.

5537. He would be also in difficulties in those years in which there was an adverse balance?—Yes; he would be in difficulties in the sense that the rate would need revision.

5538. On the other hand, if you fix the rate at 1s. $4\frac{1}{16}d.$, gold would never flow to India from England in that case?—I should be very sorry to say never, but I do not think it would frequently flow.

5539. It would flow very seldom?—It would flow very seldom in present circumstances.

5540. Is he not driven therefore to a fluctuating rate, from the fact that sometimes gold is available in one place and the gold import point is at one figure, and sometimes gold is available elsewhere, and then the gold import point is a different figure, so the actual figure is not steady throughout the year?—It was for that reason I suggested that the rate of 1s. $4\frac{1}{16}d.$ would be a business-like rate to take to commence this method of selling Council drafts.

5541. Still you agree that if they took that rate gold would very seldom flow to India out of England?—Yes, I agree.

5542. But you have criticised the Secretary of State's policy precisely on the ground that the rate he has charged has had that effect?—I do not follow the question.

5543. I understand you have criticised the Secretary of State on the ground that he has sold bills at a rate which prevented gold from going to India?—Yes.

5544. And yet you have proposed a rate that shall have that effect?—Up to the extent of the home charges, certainly. I put the Secretary of State's requirements first. That is why I took the rate of 1s. $4\frac{1}{16}d.$, because that would enable the Secretary of State to make his remittances for a certainty before gold commences to flow.

5545. We then come back to the old point that you consider that he has remitted more than he needs in Great Britain?—Yes, at the time that he made the remittances.

5546. If the gold had gone to India in the earlier years, it would have had to be brought back in the later years. Suppose over the four years he had to remit exactly what he did remit, and he remitted less in earlier years so that the gold flowed to India, he would have had to have brought all that gold back again?—I cannot agree to that straight away, because the fact of his not permitting the gold to be imported has been the occasion of a certain amount of silver coinage in recent years, the silver coinage affects prices, and prices affect the movement of trade. So I cannot say I should acquiesce altogether in that proposition; but, speaking generally, I say yes.

5547. I cannot see that the thing comes to much. All that would happen would be that the gold would have been taken out to India, the expense of which would have been borne by Indian traders, and then in a later year it would have been brought back to England, the expense of which would have been borne by the Secretary of State; and apart from those two items of expense, things would have been very much the same as they are?—Even assuming that things were very much as they are, assuming that the result so far as the Government books are concerned was the same, we should still have secured this important consideration—that the public would not have constantly had the rate of exchange jumped about, jumped up and jumped down, by the eccentric action of the Secretary of State.* Even assuming that there was no difference in the Government accounts, assuming that on the average at the end of three years the amount which the Secretary of State realised turned out the same, we should still have eliminated this disturbing influence of an official interference with the exchange, which makes it very difficult sometimes for the public to know what to do in the financing of their business.

5548. What do you mean by calling the Secretary of State's action eccentric; is it not dictated by well known rules?—I think not. I confess that at times I have been unable to conceive any rule by which it has been dictated at all. That is why I used the adjective "eccentric."

5549. The people most concerned in this question, you would agree, are the exchange banks?—They are the people who get most of the convenience out of the transactions.

5550. They have expressed themselves as entirely satisfied?—I quite understand that. I think they are perfectly satisfied. The bankers are the people who will take advantage of this convenience, and I should not expect any exchange bank to say otherwise than that it is a most excellent arrangement which ought not to be disturbed.

5551. I understand that the result of all this is that the one advantage which you claim for your proposals is that persons in India would have more certainty as to what the rate of exchange is?—Yes, that is one advantage.

5552. And there is no other important advantage?—I think there would be an advantage to the State; that is to say, I think the Secretary of State would have realised more for the rupees that he has sold than he actually has done. That point you question, but I do think he would have realised better myself. Those are the two advantages.

5553. With regard to the steadiness of exchange, I have got one or two questions I want to put to you.

* *See* note by Mr. Webb to question 5187 on page 228.

Suppose that the Secretary of State fixed his rate at 1s. $4\frac{1}{16}d.$ or 1s. $4\frac{3}{32}d.$, and, having met his requirements, stopped selling, exchange would rise possibly up to the gold point?—Yes.

5554. Or, on the other hand, while his offer of 1s. $4\frac{1}{16}d.$ was open, exchange might be a great deal lower than that?—Yes.

5555. In what way would there be greater certainty than there is at present? Exchange would still fluctuate between some figure like 1s. $3\frac{15}{16}d.$ and 1s. $4\frac{1}{8}d.$ In what way would it be more certain?—It would be more certain, because in four years out of five the balance of trade is in India's favour, and consequently in four years out of five exchange would have remained at the gold import point.

5556. But at any given time of the year it would be a matter of great uncertainty what the exchange rate would be?—I should not feel very much uncertainty. As a practical merchant dealing with finance every day I should feel very much the reverse. I should feel very much more easy if I knew the Secretary of State was not going to interfere in any way. Speaking as a practical merchant, if I knew that the Secretary of State had one rate and one rate only, viz., 1s. $4\frac{1}{16}d.$, I should then as a practical merchant make my calculations on the movements of trade as far as I was able to judge them, and I should feel that one cause of uncertainty, namely, the Secretary of State, had been eliminated.

5557. (*Sir Robert Chalmers.*) What is it in his action that strikes you, as a practical man, as the cause of uncertainty? You know how much he is putting up?—Yes.

5558. How long do you know that beforehand?—Only seven days.

5559. Is it the seven days that is the most important to you?—Partly.

5560. You do know it in advance, but you would like to know more in advance?—In practical business we sometimes have to make our calculations six, seven, eight, and nine months in advance.

5561. (*Chairman.*) You do not suggest that the Secretary of State could possibly announce, sufficiently in advance to meet your convenience, what he is going to do, do you?—Yes, because if the Secretary of State has his fixed rate of 1s. $4\frac{1}{16}d.$ that might stand for the whole year.

5562. I understood you to say that even that fixed rate must be varied from time to time by the Secretary of State according to the gold point?—It is conceivable, if the Secretary of State was not able to realise the sums required for the payment of the home charges, that at some period that rate might need revision.

5563. (*Sir Robert Chalmers.*) You mentioned six months as the period, I think?—Yes.

5564. Which is less than the period which you would desire for your practical convenience?—Yes; but even if it were revised once in three months, or even if it were revised once in a month, it would be an improvement upon revision once every seven days.

5565. The difference between a week and a month is what you come down to?—I would rather not have a month, because in practical business we have to make our calculations several months in advance. Therefore, I would much prefer to have a year, if it is possible to fix the rate for an entire year.

5566. (*Mr. Keynes.*) I would like to put the question to you from the Secretary of State's standpoint. We start him on the 31st March with three millions in London. He announces that he will sell no bills below 1s. $4\frac{1}{16}d.$; it is improbable in that case that he will sell bills at that rate in any large quantity until the next busy season comes round, is it not?—I do not think the rate would have any effect. When once it is known that the Secretary of State acts on these principles and that there is only the one rate, I do not think that rate will have any effect on the amount that he will sell. The public will apply for whatever money is actually wanted.

5567. It would affect the amount that he would sell at different times of the year; for instance, people would not want money in India at that rate at present?—I think they would. In exactly the same way as the public are now taking 20 lakhs from the Secretary of State every week at 1s. $3\frac{15}{16}d.$ or $15\frac{1}{2}$ annas, I think in exactly the same way at this time of the year they probably would take 20 lakhs at 1s. $4\frac{1}{16}d.$ I think at this season of the year 20 lakhs a week can be utilised, and the public would take them. At other seasons it may be that 100 lakhs a week, perhaps 120 lakhs a week, are likely to be taken.

5568. I put that same question to the exchange bankers whom we saw, and they gave a precisely opposite answer; you think they would be wrong on that point?—Yes, I think so. If I may be permitted to add a word, if the rate were suddenly at this moment pushed up from 15 annas to 1s. $4\frac{1}{16}d.$ I can quite believe that the sudden shock to the public would be such that the Secretary of State possibly would sell no Councils for three weeks or a month or two months; but if this principle were introduced and carried into operation regularly year by year, I do not think it would have that effect at all. I think that in the slack season the public would take 20 lakhs, 30 lakhs, or 15 lakhs, whatever they required, and in the busy seasons they would take very much more.

5569. It is your considered opinion that if the rates for Councils were fixed, the Secretary of State would sell substantially the same amount week by week that he sells now?—Yes, I think so.

5570. In an article which appeared in your name in the "Pioneer," some weeks ago, you argued that the Secretary of State would certainly get buyers for his bills, because there is no way except the purchase of Councils by which rupees can be obtained in large quantities?—Yes.

5571. You are not aware of the notification which has been in force for a great many years by which the Government of India have bound themselves to supply rupees or notes in exchange for the tender of sovereigns?—I am perfectly aware of that.

5572. Then the purchase of Council bills is not the only way of getting rupees?—In large quantities with certainty, yes.

5573. The Government of India have bound themselves to give you rupees in exchange for sovereigns in any quantity?—They have, but on one or two occasions they have not been able to do so, and possibly, if I were to ship out five millions of sovereigns to-morrow they would not be able to do so.

5574. On what occasions have they refused to do that?—I cannot give you the exact year correctly, but I was in Calcutta some years ago when there was a shortage of rupees, when 8-anna pieces were shipped to Burma to finance the rice trade, and when the people of Burma would not have the 8-anna pieces, and the 8-anna pieces were all shipped back again to Calcutta, although they were legal tender. There were not enough rupees, in fact, to go round. I remember on more than one occasion that occurring.

5575. You mean that this notification was not maintained by the Government?—I think they had a difficulty on that occasion in maintaining it.

5576. They had a difficulty, but did they maintain it?—It has been maintained, I think. There has been no actual breakdown.

5577. (*Sir Robert Chalmers.*) You are not aware of any specific refusal of the Government of India to abide by the terms of their notification?—No, I cannot recall any.

5578. (*Mr. Keynes.*) You would agree then that what you wrote in the "Pioneer" wants some modification?—No, I think it is substantially correct, as referring to prompt supplies of rupees in large quantities. There are ways of raising rupees in certain quantities, but in large quantities they can only be obtained in that way, by presenting the sovereigns to the Government and getting the rupees from the Paper Currency Reserve. It is conceivable that the Paper Currency Reserve may not have sufficient rupees in it at the time to supply the demand.

5579. Let me quote your words—"The Indian "mints now being closed to the public (a most "objectionable state of affairs that puts India, monetarily, on a par with Persia or China), there is now no "way by which the public in India can obtain supplies

" of rupees on a large scale except by purchasing " them in London from the Secretary of State." You agree that there is a notification which has always been maintained by the Government, by which you can get rupees in exchange for the tender of sovereigns?—Yes. I was perfectly aware of that notification. Perhaps the expression "in large quantities" may not have conveyed to you the same meaning that I had in my mind when I wrote it. The large quantities may be modified by the inability of the Government at certain periods to produce rupees as rapidly as the public might import sovereigns, especially if the Secretary of State's drawings were restricted to 16 millions or 17 millions required for the home charges.

5580. (*Sir Robert Chalmers.*) The statement was not based on a specific actuality?—No.

5581. (*Sir James Begbie.*) You said yesterday, referring to the budget of 1910, that you thought the realised surplus of the previous year warranted a reduction of taxation; you thought that when there was a realised surplus of a million and a half, taxation might have been taken off?—Yes, it might have been taken off.

5582. As a matter of fact, were not some additional duties put on in the budget of that year?—I think 1910 was the year of additional taxes on silver, cigarettes, and petroleum.

5583. To the extent to which these additional duties brought in fresh revenue, they contributed to the subsequent surpluses?—Yes, undoubtedly.

5584. You were questioned yesterday about the sales of Council bills to prevent gold going to India, because the sovereigns might be shipped back again; if there was an effective gold currency in India, would there be any need for the re-shipment of sovereigns to buy silver on a large scale?—Not on a large scale.

5585. Consequently there would be no need to sell bills to prevent gold going to India?—No, I strongly object—and that is one of the grounds of my objection—to sales of Council bills at below the gold import point.

5586. I gather that you are in favour of selling Council bills to lay down money in London for the purchase of silver?—Yes, for token currency purposes.

5587. Would you say that the silver purchases should always be paid for from the proceeds of Council bill sales?—They most certainly ought not to have been paid for last year from the proceeds of Council sales. That, I think, was an unpardonable blunder. On some occasions I think it would be a satisfactory way of providing for the token currency if a small sum were entered in the Secretary of State's budget every year and drawn from for replenishing the token currency, the idea being to prevent any excitement in the silver market, and to enable the Government to replenish its token coinage on the best possible terms.

5588. When silver is purchased from the proceeds of Council bills for coinage purposes, that means an addition to the total currency of India, does it not?—Yes, it does, in a way.

5589. If you use gold from the Paper Currency Department to buy silver for coinage, that is a substitution of silver currency for gold currency?—Yes, quite so.

5590. There is no increase of the total currency in that way?—No.

5591. Whereas if you sell Council bills to be used for buying silver, that is an actual addition to the total currency?—Yes, that is so.

5592. Do you regard it as a disadvantage to India to carry more metallic currency than is absolutely necessary?—Yes.

5593. Regarding Council bill sales below the specie point, do you consider that they act as a stimulant to the export trade?—Not permanently.

5594. But so long as the sales go on?—They act as a stimulus; that is, a falling exchange acts as a stimulus temporarily.

5595. Sales of Council bills might cause exchange to fall?—Certainly, and they have done so.

5596. The other way about, the effect on the import trade would be in the opposite direction?—Quite so.

5597. Selling Council bills in that way means, does it not, that the gold standard is prevented from working naturally?—Undoubtedly.

5598. The nearer you get to the gold import point, the nearer you get to automatic working?—Quite so.

5599. The ability to sell Council bills depends, does it not, on the balance of trade being in favour of India?—Wholly.

5600. The higher you put the rate, the less chance you have of selling your bills unless under very favourable trade conditions?—I doubt whether the actual level of the rate would have much effect upon the trade of the year, taking it as a whole.

5601. If you put it too high you get sovereigns going in?—Yes.

5602. You cannot go above the import specie point?—No.

5603. If the Secretary of State holds for a fixed rate for his Council drafts, and you have an unfavourable state of trade, the balance of trade being against India, he would not be able to sell at his rate if it was a high one?—No.

5604. Then it would be a question, would it not, how long he could afford to wait for the money he requires?—Yes.

5605. An allusion was made yesterday to the time in 1894 when the Secretary of State held back the sale of Council bills for certain rates for a certain time?—Yes.

5606. Do you remember whether when the decision was arrived at not to hold up the sales for special rates an intimation was issued that the sales would be resumed at market rates?—Yes, I remember that. It was notified at the time that sales would be resumed at market rates, and I remember very well the consternation that this notification produced in the mercantile mind at the time. I remember myself being under the impression that the Government were holding out for 1*s.* 4*d.*, and then we were suddenly told that the Government would take any rate that was offered. I think the effect was to send exchange with a run down to 1*s.* 1*d.*, speaking from memory.

5607. Do you consider that the reason of that was that the balance of trade was not sufficiently in favour of India to absorb the accumulations of remittances which had been held up?—That result was produced, I think, by the excessive coinage of silver at the time that the mints were closed, which had the effect of checking the balance of trade in India's favour.

5608. The result of holding up the bills for a fixed rate and then throwing the accumulations upon the market was disastrous, was it not?—It was, in my opinion.

5609. Would you say that that experience showed that when unfavourable trade conditions prevail the Council bill system is a disadvantageous one for the Government?—No, I do not think so.

5610. They put themselves in the position that they have to declare how much they want to sell; does that not place them in a bad position?—I think not. I think the public know that 16 millions, or 17 millions, or 18 millions, have got to be remitted during the course of the year, and if at any time the balance of trade is against India, then I think there is nothing for Government to do except to ship home sovereigns from their revenue accumulations to meet their home charges.

5611. (*Mr. Gillan.*) I am not sure that we are looking at this question of Council bills in exactly the same way, and I would like to make that clear, if I can. In Part VIII., paragraph 2 (*h*), of Appendix XXI. you (page 569) have given a definition of Council bills. You say, "They are simply sales in London of sovereigns or rupees delivered in India"?—Yes.

5612. I am not sure if you mean that they are sales of actual coin, so to speak?—Yes, so I regard them.

5613. Suppose that you had an account, we will say, with the Bank of Bengal at Calcutta, and that your home firm had sent you out a bill for, say, five lakhs of rupees, but you did not immediately want the

coin for that; what would happen to it?—I should pay it in to my credit at my bankers in Calcutta.

5614. You are banking at the Bank of Bengal with whom the Government are also banking?—Yes.

5615. In that event it would mean simply a transfer from the Government account to yours?—Yes.

5616. I will suppose that you also deal in opium; you have bought a lot of opium and you have got to pay Government, and you pay them by a cheque which transfers the amount from your account to the Government account?—Yes.

5617. That cycle is complete without any coin?—Yes.

5618. Supposing that a great many transactions in India were done by cheque instead of by coin, these Council bills would not mean sales of actual coin, would they?—Not exactly.

5619. Would it not, therefore, be more correct to say that they are sales, we will not say necessarily of coin, but of a right to a certain sum in Indian legal tender currency?—I should not object to that definition.

5620. Would you be prepared to go further, if we transposed the definition and said that these Council bills which the Secretary of State at present sells in London are really equivalent to purchases by him in Indian currency of bills on London? That is what they are equivalent to, is it not?—In a sense, yes.

5621. I am only putting that, because it seems to me to put the matter in rather a clear light. That legal tender currency in India is liable, is it not, to appreciate and depreciate in exchange, and that naturally like any other currency in any other country?—As regards the foreign exchange, yes, it is liable to fluctuate between the specie point inwards and outwards.

5622. What I was going to say is that those fluctuations do not depend on the cost of importing sovereigns; as you said just now, they are limited by that cause, but they do not depend on it?—Not wholly.

5623. In the passage that I have quoted from your memorandum, you go on from that definition to say "and the cost to the public should be only "a shade below the actual expense of shipping "sovereigns to India" (page 569)?—Yes, that is so.

5624. Why do you make it depend on that factor?—Because the balance of trade is, on the whole, in India's favour.

5625. I can see what you said in reply to Mr. Keynes on that point, but here it seems to me to be an inference drawn from that definition?—Yes. that is so.

5626. Do you still think that is correct?—Yes, I think so.

5627. Yesterday, in answer to the Chairman, you spoke of the Secretary of State making, I understood, a rate of exchange; but that I was not clear about?—Yes, I did.

5628. What is the total volume of Indian trade? I put it to you that it is somewhere, in and out, between 300 and 400 crores a year?—Yes.

5629. That creates exchange to that extent?—Yes.

5630. The Secretary of State's demands are, we will say, 30 crores?—Yes; it is a very large demand.

5631. Assuming that he has, we will say, a tenth of this exchange created by the total trade of India, how is it possible for him to make a rate? That is what is not clear to me. How can a person who is dealing, we will say, in a tenth of any commodity, exchange or anything else, make a rate?—I can explain that very easily. He makes a rate in this way: When in the eyes of the public the demand for remittances to India is weak, and he suddenly and unexpectedly announces that next week he will dispose of 50 lakhs instead of 30, he thereby at once depresses exchanges by $\frac{1}{16}$ or so. If he announces: Next week I will not auction any rupees at all, he will strengthen exchange, but if he announces: Next week I am going to sell 100 lakhs instead of 50, and the market is already weak, the instant effect will be to knock exchange down at once. His mere announcement that he is going to sell next week so many rupees, has a depressing effect upon the market, or a strengthening effect upon the market if he reduces the amount of rupees that he is putting up for auction.

5632. As I understand it, you mean this, that being a very large dealer in this commodity, he has the power of disturbing the market?—Being a monopolist, almost, in the sale of rupees—for he is not only a large dealer, he is a monopolist—being a monopolist, he can largely make the rate. He can say week by week: I will not sell a single rupee, and in that way he can force the rate up to specie point. If he does not take that action, but says: I am going to sell next week 50 lakhs, and then in a subsequent week I am going to sell 100 lakhs, and the week after I am going to sell 200 lakhs, he can depress the rate down to specie point outwards.

5633. I am afraid I must pursue that point if you say he is a monopolist. In what sense is he a monopolist? It is open to anyone to take soveriegns into India and demand rupees, is it not?—Yes; under the notification which Mr. Keynes just reminded me of, that is so.

5634. How is his positiou then one of monopoly?—I regard it as a monopoly in this sense, that throughout the last year or two he has actively intercepted and prevented the export of sovereigns to India by auctioning rupees at below specie point.

5635. That is another point altogether, surely; I was asking you about his position as a monopolist?—That is how he has exerted the power which his position gives him. If you take into consideration the fact that he has undertaken to produce rupees in exchange for sovereigns in India at the rate of 15 rupees to a sovereign, to that extent I admit that he is not a monopolist.

5636. (*Chairman.*) May I put it to you that your idea would be better expressed if instead of calling him a monopolist you said that he had undersold all possible competitors?—Yes.

5637. (*Mr. Gillan.*) That is rather a different point?—There is no competitor, though, except the Government, because there is nobody who can supply the rupees; even if they are coined and supplied in India in exchange for sovereigns, there is only one supplier and that is the Government.

5638. (*Chairman.*) But the Government has bound itself?—The Government has bound itself, has undertaken, to supply rupees.

5639. (*Mr. Gillan.*) I will ask you now another point in the same connection. In paragraph 7 of Part II. of Appendix XXI. (pp. 556–7), you refer to the interference of the Council bill system with foreign exchanges. Is it your view that the sales of Council bills within the Secretary of State's requirements have that effect?—I would not in those circumstances describe it as an interference; they would affect exchange, of course, because the Secretary of State is such a large drawer on India. In so far as they are for his legitimate requirements in this country, I should not describe them as an interference. It is only when he commences to draw in excess of his legitimate requirements in this country, that I describe the transaction as an interference.

5640. So that this reference to interference in this paragraph which I have quoted was based on the fact that in your judgment he has drawn in excess of his requirements?—Yes.

5641. I merely wished to make that clear. I think you said something about sales of Council bills depressing exchange?—Yes, sometimes.

5642. That is their natural effect?—Yes.

5643. Suppose that the Secretary of State had in particular cases refrained from selling Council bills for the time being, that would have a good effect on exchange, would it not?—Yes, it would stiffen exchange.

5644. But, assuming always that he is not selling outside his requirements, he would at some later date have to sell so much the more?—Yes, he would have to put himself in funds either by sales or by receiving specie.

5645. Assuming that he sold this sum later on, at that time, *pro tanto*, the effect would be to depress exchange?—I am not quite sure about the *pro tanto*,

because at the other seasons of the year trade may be very brisk, and there may be an immense demand for money, and if the Secretary of State sells when there is an immense demand for money, he does not depress exchange so much as if he sells when there is a very small demand for money. Therefore, while there is a tendency to depression, I cannot say the tendency is *pro tanto*.

5646. I do not say that one could follow it out quantitatively; but you do not think it would have an equal effect in the opposite direction?—No, it would not have an equal effect.

5647. I understand that in a bad season he would get a lower rate, but would not the amount on the market have exactly the same effect in the one direction that it had in the other direction?—If the amount that he put on the market corresponded exactly with the additional demand, yes.

5648. Now I come to the amount sent home to meet the requirements of the Secretary of State. I think you have more or less agreed, in answer to Mr. Keynes, that, taking the period as a whole, there has not been sent home more than the Secretary of State actually in the long run needed or spent?—I would be inclined to put it, that, having sent home very much more than he has required, he has successfully managed to get rid of it in legitimate ways.

5649. Very well; I will come to that later on. I must ask you what you exactly mean by home charges when you say that the sales of Council bills should be directly limited to the home charges?—Do you desire me to define home charges?

5650. I will put it in this way: Do you mean the home charges year by year?—Yes.

5651. The home charges of a particular year?—Yes.

5652. If the home charges this year are 20 millions, he has not to remit home 21 millions; is that your position?—Yes.

5653. How would you treat exchange by Council bills over a series of years, taking good and bad together? In a famine year you said that you would bring home sovereigns?—Yes.

5654. At a rate equivalent to 1*s.* 3*d.* and, I suppose, $\frac{29}{32}$?—Thereabouts.

5655. It is not, in your view, wise finance to anticipate a possibility of that kind?—Quite so.

5656. It is not wise finance in your opinion?—No, it is not wise finance.

5657. It is not?—Not to anticipate, not to force exchange down to specie export point in anticipation of a famine year, which I consider is the policy that the Secretary of State is now following. I will take an example from to-day's position. The Secretary of State is now selling at below 1*s.* 4*d.* for no conceivable reason that I can think of except that he has habitually done it before for several years and he is doing it again, but not for any reason that I can discover.

5658. In your opinion, is it not wise of him to take advantage of a strong exchange or of favourable seasons in order to get his money home? You would risk everything and leave anything that he requires to be brought home in the course of the year, whatever that year was?—I would risk each year—take each year as it stands.

5659. About the way in which the money is being used—that is a matter you referred to just a moment ago. Sir Robert Chalmers put to you some figures yesterday, and I think Mr. Keynes also brought it out this morning, showing how it has been used?—Yes, that is so.

5660. Would you not agree, in view of those figures, that the Government of India have, as a matter of fact, succeeded in keeping up a very reasonable programme of public works, and at the same time have avoided borrowing to any large extent?—I think the programme of construction which has been carried out is, on the whole, not unsatisfactory.

5661. And that has been done with very little net borrowing?—It has been done on the whole with little borrowing, certainly.

5662. Incidentally, that is a result which has been obtained only by reason of these large balances which the Government of India have held?—Yes.

5663. To that extent, would you agree that the existence of those large balances has had a beneficent effect?—Yes.

5664. You say in paragraph 10 of the first part of your memorandum that the policy of constructing reproductive capital works in India "does not appear to have been actively developed" (page 553); I do not quite understand what you mean by that sentence?—That sentence is based upon the fact that there has been a strong agitation from Bengal and Bombay that the amount spent on railway works has not been sufficient. Although large amounts have been spent, there is a consensus of opinion in Bengal and Bombay that the amount has not been sufficient. The fact remains that although in this connection the Railway Finance Committee in 1907–8 recommended 12½ millions annually to be spent on railways, that amount has never been spent.

5665. I quite agree?—Therefore, although large amounts have been expended on capital works, I do not consider that sufficient has been expended.

5666. Would you have been inclined then, taking the general financial outlook into consideration, to spend more?—Yes.

5667. In the present year's programme of railways and other works, we have to draw to the extent of no less than 11 millions from our balances—I daresay you noticed that in the financial statement?—Yes.

5668. Supposing you had spent more money in previous years on railways or any other objects, what would have been the result this year? I put it to you that there would have been two alternatives—either you would have had to drop very much of your railway programme, which I presume you would admit would have been very unfortunate, or you would have had to borrow very considerably in the London market?—I do not see it in that way at all. It appears to me that if the railway programme had been more completely carried out in the years gone by, there would not have been the necessity to spend so much on it now.

5669. (*Sir Robert Chalmers.*) You think it is finite, do you?—No, not finite.

5670. (*Mr. Gillan.*) It is only the last two or three years I am considering?—I understood the question to be that if this money had been spent in the past it would not be available to spend now; and my reply to that is that if it had been spent in the past there would not have been so much necessity for spending it now.

5671. We have been keeping up a programme of about 9 millions or 10 millions, and this year we have increased it?—Instead of the 12½ millions recommended by the Railway Finance Committee; that is to say, the Government of India's programme has been several millions short of the recommendations of the special committee who were formed to advise the Government in that respect—their actual work has been considerably short of the recommendations of that committee, although the work has been large.

5672. What I was putting to you was that if we had spent all the money in the last two or three years we might have had to drop from this programme not say, 10 millions, but a great many, perhaps 5 or 6?—Such a thing is conceivable.

5673. Do you not think the Government were, as a matter of fact, well advised in keeping a little money in hand, so as to maintain a steady programme instead of jumping up and down by millions?—I think it is possible that had I been responsible for the railway programme five years ago, I might have acted exactly the same as the Government have done; but the fact remains that circumstances have proved that it was not adequate.

5674. (*Lord Kilbracken.*) You tell us that, generally speaking, the Government of India and the Secretary of State have erred by excess of caution and unwillingness to take risks?—Yes.

5675. You say that, I suppose, speaking as a business man?—Yes.

5676. In other words, you apply to this question the principle which would govern a merchant in managing his own business; and looking at it from that point of view, you think that the Government has been over cautious?—Yes.

5677. Or pessimistic, as you say?—Yes.

5678. A merchant who wants to succeed in business has, I suppose, to take risks pretty often?—Yes.

5679. Do you think that a Chancellor of the Exchequer or a Finance Member of the Council, with all his responsibilities for the affairs of a great country, should act on the same principles as a private individual who is trying to make a fortune in business?—Not exactly the same.

5680. Does it not come to that?—It is a matter of degree. I would not suggest that the Government should conduct their business on exactly the same lines as a private firm who are paying a dividend, but I think if they moved a step or two in that direction it would be a good thing.

5681. You admit that there is a very considerable difference?—There is a difference certainly.

5682. And that the principles, in other words, which guide them should not be the same?—Not identically the same.

5683. (*Mr. Keynes.*) In answer to one of my last questions you said that if the Secretary of State fixed 1*s.* $4\frac{1}{16}$*d.* as the rate for his bills he would sell about the same amount each week as he does now?—I think so.

5684. At present he sells some bills every week?—As a rule, yes.

5685. No one will buy from the Secretary of State at 1*s.* $4\frac{1}{16}$*d.* if the rate in the outside market was below this?—If the gold import point was below it.

5686. If the exchange rate in the outside market was below it?—That is right.

5687. Therefore you hold that if the Secretary of State pursued the policy you recommend, the rate in the outside market would never be below 1*s.* $4\frac{1}{16}$*d.*?—It would only be below on those occasions when the balance of trade turned against India.

5688. But in ordinary years it would never fall below 1*s.* $4\frac{1}{16}$*d.*?—I think so.

5689. It is therefore your considered opinion that if the Secretary of State announced he would not sell bills below 1*s.* $4\frac{1}{16}$*d.*, then in normal seasons exchange never would fall below that rate?—That is so.

5690. (*Chairman.*) Now we will turn to Part III. of Appendix XXI. (pp. 557–9), if you please. The principal recommendation that you make in that part is that the Bombay mint should be opened at once to the free coinage of sovereigns, I think?—Yes.

5691. Will you please explain to me what advantages you think the opening of the mint would bring to India?—One advantage, in the first place, would be that movements in the foreign exchange would be regulated automatically — it would facilitate their regulation automatically. The other advantage is that it would also facilitate the growth and development of a gold coinage.

5692. Taking the first point I do not quite follow your meaning when you say that it would facilitate the automatic regulation of exchange; in what way would it do that?—It would enable the public at all times to present gold for conversion into sovereigns whenever they required them, and would therefore give them another means of putting themselves in funds, in cash, than at present exists.

5693. Am I to understand that the advantage in that respect would be derived from the facility for coining the gold which is now in India?—That is one of the advantages.

5694. What would that gold be? Do you suppose that the produce of the Indian mines would, if such a mint were opened, be tendered for coining in Bombay?—I think so.

5695. I think we have had it on the authority of the Indian Government that some time ago they found that the mines were under contract to send their gold to England?—That is so.

5696. They have large dividends to pay in England?—Yes.

5697. Do you think the inducements to them, under those circumstances, to send gold to the mint in Bombay would be large?—If the mint were regulated on the same excellent principles that regulate the London mint, yes.

5698. Even though having these large sums to pay in England, you think it would pay them better to have their gold coined in Bombay than to send it to England?—Yes, I should think so.

5699. At any rate, that is one of the sources on which you count?—Yes.

5700. Do you think that much gold would be produced from the hoards?—I do not think that the effect of a mint would be suddenly to draw gold out of hoards, but in times of danger and emergency it would afford a means of turning the savings of the people in the hoards into money.

5701. Rapidly?—Rapidly. In past famines and in past times of trouble, metal has been produced from hoards, and I think a similar experience would occur again.

5702. May I take it that you do not anticipate that it would add very much to the amount of gold coinage in India, but you think on the whole it would have that effect?—Yes, I think so.

5703. You propose, I take it from what you have said, that no seigniorage should be charged on the gold coined at the mint?—Certainly not.

5704. Sir Robert Chalmers points out to me that in the first paragraph of this section of your memorandum (page 557) you quote the Indian Currency Committee's recommendation (section 54) "that the Indian mints "should be thrown open to the unrestricted coinage "of gold on terms and conditions such as govern the "three Australian branches of the Royal Mint."* Those terms and conditions do include seigniorage; perhaps you are not aware of that?—I was not aware that there was any seigniorage charged in Australia. As far as I remember, I think a charge was made for maintaining the mint, but I did not know there was a charge in the form of seigniorage.

5705. At any rate, I am to take it that it is an essential point in your proposal that no such seigniorage should be charged here?—Yes.

5706. The principal advantage which you would expect to derive is that you would increase the amount of gold coin in circulation?—That would be one of the tendencies.

5707. Is there any other advantage?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a mint at which money could be coined at the requisition of the public.

5708. I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency?—Yes.

5709. And essential to a gold currency that there should be a gold mint?—Yes, on the spot, in India itself.

5710. It has not been found essential everywhere—in South Africa, for instance, where you have the largest production of gold?—There always was a mint there, I think, until we closed it.

5711. There is no mint at present. There was a Transvaal mint, you mean?—Yes. I cannot conceive why a mint has not been opened in South Africa.

5712. (*Sir Robert Chalmers.*) You are not aware of any large and definite demand for a mint from South Africa, are you?—No, not beyond the demand that I myself endeavoured to stimulate when I was in South Africa.

5713. (*Chairman.*) As you put it, it seems to me that it is really rather for the perfection of a theory than for any very definite practical advantage that you can point to, that you advocate the opening of a mint for the coinage of gold. What I mean to suggest is, that the only practical advantage you have suggested is that it would increase the number of sovereigns in the currency?—It would do away, in a measure, with the management by the Secretary of State of the foreign exchanges, in that there would be

* C. 9390, page 16.

always the mint at which the public could convert their gold into legal tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal.

5714. Regarding them as an additional safeguard of exchange, the sovereigns coined at the mint must be exported, must they not?—Not necessarily.

5715. How would they support exchange without being exported?—The actual support is not exercised until the time comes for their exportation, but the fact that they exist and can be exported when needed, is a sufficient practical support to exchange. It establishes confidence.

5716. That is to say, if I understand you rightly, the more gold you have in circulation in India, the greater the reservoir on which you have to draw for the support of exchange in a time of crisis?—Yes; and if the tap to that reservoir is in your own possession and can be controlled by yourself, you feel still more confident.

5717. The moment you need to export sovereigns for the maintenance of exchange, would sovereigns have any advantage for that purpose over bar gold, or other forms of uncoined gold?—Very little.

5718. So that if bar gold was hoarded in India and came out in a time of crisis, it would be equally as available for the support of exchange in that form as it would be if it came out of the hoards in the form of sovereigns?—Yes, to a large degree.

5719. Now with regard to the gold in circulation in India, do you think that it is very effective for the purpose of supporting exchange?—It is most effective.

5720. Do you think that in a time of crisis it would go to the support of exchange?—Unquestionably.

5721. You do not think that at such a moment there might be an increased instead of a diminished tendency to hoard?—I do not think so

5722. Do you think that gold in circulation is as effective for that purpose as gold in the Secretary of State's reserves?—No, it is not so effective.

5723. For every 100*l.* in the reserve, there is 100*l.* which directly supports exchange: is that not so?—If the gold is freely in circulation it is an additional support to the reservoirs in the Government's possession and in the possession of the banks. Everybody has his own reservoir, so to speak.

5724. If a million were in circulation, some proportion only would go to support exchange?—Yes.

5725. Whereas if a million were in the reserve, the whole would go to the support of exchange?—If it was required, and if it was used.

5726. To that extent, gold in circulation is less effective for the maintenance of exchange than gold held in the reserve?—Yes.

5727. Do you regard a gold currency as desirable in itself, apart from its particular effect on exchange?—Yes.

5728. You do not regard it as rather a wasteful form?—No, I do not think so—not in India. It is wasteful in highly developed countries, but not in India.

5729. For what reason?—Because India is not so far advanced, and her circumstances in regard to trade and commerce are not similar to those of this country. A very large proportion of the population cannot read or write, and therefore are quite incapable of drawing cheques; they live far from railways, and altogether there are very many reasons for the use of a full value metallic currency in India which do not exist in this country at all.

5730. Would you go so far as to say that to the extent to which the population can be induced to use their currency notes or silver, it is a cheaper and better form of currency then gold?—No, I would not say that; speaking from the point of view of India, I would not say it was better.

5731. (*Sir Robert Chalmers.*) Is it cheaper, was the question?—No, certainly not, unless the notes are supported by securities and not by metal.

5732. (*Chairman.*) Now I want to refer to a subject with which you deal in Part III., paragraph 7 (*c*), of Appendix XXI. (page 558), and on which we touched yesterday. You say that fresh rupees should not be coined until the proportion of the gold in the currency is found to exceed the requirements of the public?—That is so.

5733. I asked you yesterday, but I do not think I got a very clear answer from you—perhaps I did not put my question well—what is your test for the needs of the public? How would you test those needs?—The test I should take would be the requirements of the traders for money to carry on their trade, European and Indian. That would, no doubt, find its expression through the banks.

5734. But not its whole expression through the banks. For instance, the Government must have sufficient rupees for the encashment of its notes?—Yes, rupees and sovereigns.

5735. It must be prepared to give rupees in exchange for sovereigns whenever they are tendered?—So long as it accepts that responsibility. It is a self-imposed responsibility.

5736. It must also have rupees to meet Council bills?—If rupees are demanded. Rupees may not necessarily be demanded. In my part of the world I am quite sure that some export firms would as soon receive sovereigns in payment of Council bills as rupees.

5737. To the extent to which rupees are demanded for any of those purposes, the Government must be prepared to meet it?—Yes.

5738. Would you be surprised to learn that those are the tests which the Government of India apply?—No, I am not surprised. I know it is the test, and I think I have drawn attention to the fact that although Government had decided on one policy, their attitude appears to be: After all, if the people do not want a gold policy, we will not press it.

5739. That brings me to another point. I think you call our attention to the view of the Currency Committee that "when Government has accumulated a "sufficient gold reserve, and so long as gold is available "in its treasury, it might discharge its obligations in "gold instead of rupees."* Is that what you are alluding to?—Yes.

5740. I will just pause at that point to ask you: Do you think the Government has accumulated a sufficient gold reserve already?—Yes.

5741. In this country, or do you mean the total?—To carry out its obligations in India in gold—do I understand the question correctly?

5742. I mean for all purposes?—For local purposes in India I think sufficient gold has been accumulated in India to enable the Government of India to carry out its obligations in gold.

5743. Without trenching upon any gold required as a reserve for the maintenance of exchange?—Yes, certainly.

5744. You seem to me to translate the opinion of the Currency Committee, that when that state of affairs has been reached the Government might discharge its obligations in gold instead of rupees, into an injunction to the Government of India so to discharge it?—Yes.

5745. You quote with disapproval the expression of policy of the Government of India that "while refraining "from taking any steps to force the gold on the people, "they discharge their obligations in sovereigns wherever "payees so desire"; or, in other words, that they give the payee what he asks for?—Yes.

5746. Your opinion is that they ought, if I may use the expression, to force the gold upon him?—I do not like the word "force." My view is that if Government intend to establish a gold currency, they should take reasonable steps to carry out that policy, and not pause at every step in the policy to ask everybody if they want it carried out or not.

5747. Suppose the Government had come to the conclusion that there was no reason for establishing a gold currency, as exchange was being maintained without it, and could be so maintained, is there any reason then why they should attempt to press upon the public something which the public *ex hypothesi* does

* Report of Indian Currency Committe of 1898, paragraph 59 (C. 9390).

not demand?—I should think Government had come to a wrong conclusion in those circumstances.

5748. So that your criticism on all this part of their policy is that it is their duty to establish a gold currency?—Yes, as recommended by the expert committee especially appointed to advise them in this matter, as accepted by the Secretary of State, and as accepted by the Government of India.

5749. Have you any reason for desiring the establishment of a gold currency beyond the additional support that it would give to exchange?—Yes. I think it would add immensely to the credit of the country generally if a gold currency were in circulation, and if the world generally understood that the currency of India was on exactly the same footing as the currency of England, and that there were no further currency risks in dealing with India than there would be in dealing with Australia or Canada. I think that would be a great gain to the credit of India.

5750. That really comes back to exchange again—to the support which such a currency would give to exchange?—Yes.

5751. You do not think the other measures taken by the Government of India and the Secretary of State are sufficient to give that public sense of security in the maintenance of exchange?—No.

5752. In paragraph 8 of Part III. (page 558) you say: "If the Government 'put their hearts' into this business, "to use Professor MacLeod's expression, India will very "soon have a gold currency in active circulation" and "the exchange value of the rupee will be as permanently "secured as the exchange value of the English shilling, "or the French 5-franc piece, or the silver dollar of "the United States of America; and that, too, without "the necessity of maintaining any Gold Standard "Reserve"?—Yes.

5753. Do you mean that under those circumstances there should be no reserve in existence, or do you only mean that whilst it would be wise to have a reserve, there would be probably no call upon it?—I mean there would be no necessity to maintain what is now known as the Gold Standard Reserve. I mean that there would be sufficient gold in the possession of the banks, in the possession of Government, and in the possession of the public, to support exchange without extraneous assistance from what is now called the Gold Standard Reserve.

5754. You think that the banks would accumulate something in the nature of the Bank of England gold reserve?—I think everybody would have to hold gold, and the metallic portion of the reserves against the paper currency would be almost wholly in gold. There would be therefore plenty of gold available to support exchange without the assistance of what is now known as the Gold Standard Reserve.

5755. (*Lord Faber.*) As regards this very important question of maintaining the gold reserve, at present I supppose you think it is quite necessary to have a Gold Standard Reserve?—I think it is desirable to have a Gold Standard Reserve now until a gold currency has been thoroughly established throughout the whole of India. It is not so necessary now as it was five years ago.

5756. You would agree, I think, in believing that the very fact of having a Gold Standard Reserve renders it unnecessary to use it; the public are so satisfied with the condition of the reserve to maintain gold payments, that they will not come for gold as they would do if there were no such reserve?—The public will never come for gold until the balance of trade turns against India, and when the balance of trade turns, they will come for gold. I do not think they are influenced, or can be influenced, by any other consideration than the balance of trade. Of course, with the existence of the Gold Standard Reserve at present, there is more confidence than there would be without the existence of that reserve.

5757. (*Sir Robert Chalmers.*) In paragraph 7 of Part III. (page 558) you put most strongly that it is "weak and unbusinesslike" for the Indian Government to consider what the Indian public desire. Do you quite stand to that expression of opinion, or do you modify it in any way?—Not in the slightest in this connection.

5758. A bold autocracy would be your line?—In this connection, yes.

5759. Coming down to gold in the possession of individuals, you lay great stress on that; but do you think that the possession of gold in the form of coins in the pockets of individuals is a real strength to exchange which you can depend on when a crisis comes?—It depends on the nature of the crisis. If the crisis means the failure of the rain and the crops in India, leading to a reversal of the current of trade, yes, I think so, certainly.

5760. Have you got any support for that view in past history? Before you answer I will indicate what we have received in evidence—in the crisis of 1907–8 the Paper Currency Reserve lost 4¼ millions of gold, which all went into circulation and, on your hypothesis, would have strengthened exchange by being available for support?—I do not think a parallel can be drawn from the example of 1907–8, because, owing to the terribly bad management on the part of the Government, they themselves depressed their own exchange down to such a point as to make it profitable to the public to hoard sovereigns.

5761. As a matter of fact, out of that 4¼ millions only about a quarter-of-a-million came home; are you aware of that?—Yes.

5762. Therefore, that experience does not show that the passage of sovereigns into currency at any rate necessarily supports exchange and supports it in the hour of need?—That example affords no support to that theory in the slightest. May I be permitted to say that on that occasion the moment that I personally required sovereigns I went to the Treasury and asked for them, and the Government declined to give me sovereigns? I went to Bombay and the Government declined to give me sovereigns. I went to Calcutta and had a long talk with the Finance Minister, and I pointed out to him that he himself was breaking down exchange by omitting to let go the sovereigns. Still the sovereigns were not let go for several weeks. Government themselves, by their own action, created that feeling, that lack of confidence, which led to sovereigns being hoarded. It was Government themselves who destroyed their own scheme.

5763. When you get the alternative of payment in rupees or in sovereigns, do you not think that, in a time of crisis, there would be a tendency to pay in the less valuable form?—Not the slightest, if there is gold in circulation throughout the country; but if there is insufficient gold, or if there is a lack of confidence in the action that Government will take, then gold will assuredly be hoarded; but if gold is fully in circulation, if the metallic reserve of the paper currency consists wholly of gold, and if Government make it quite clear that they are not going to let exchange down themselves, then I think no tendency to hoard sovereigns, or to pay in rupees, would arise.

5764. Do you still attach importance to the possession of gold in the form of sovereigns by the people?—Yes, very much.

5765. Do you remember the late Lord Goschen took rather the opposite view in the speech he made at Leeds some years ago?—Yes.

5766. He spoke, I will not say with disrespect, of waistcoat pocket gold, and indicated his belief that when you wanted it it was not available?—That is so.

5767. You are aware of that fact?—Yes. I think that Lord Goschen's view was perfectly correct in respect of this country, but I think the circumstances in India are entirely different. The circumstances in India are these, that if there is a failure of the crops in a certain portion of the country, money has to be produced to remedy this state of affairs, and if the savings of the people are in the form of sovereigns, if the hoards are in the form of sovereigns, they have to be brought into the market, and so money flows into the market and will flow into the banks. But the conditions are altogether different in this country, where everybody recognises that the gold reserves are very slender, and where, in a time of crisis, there would be a tendency for everybody who was ignorant and ill-informed, to hoard gold.

5768. Do you think there would not be that tendency in India?—No.

5769. (*Mr. Keynes.*) You say that sovereigns are now in circulation to the extent of over 40,000,000*l.* in India; is that approximately the figure of the total absorption of sovereigns by the public since 1898?—The source of that figure is the last report of the Paper Currency Department of 21st December last, and the extract is as follows: "The latest estimate of the "number of rupees in circulation is 180 crores, and "the figure for gold may be taken to be 60 crores. "The growth of the circulation of silver has not kept "pace with the growth of the circulation of gold." Those are the figures dealing with the current amount of the currency in circulation, silver and gold, which I have taken from the last official report of the Paper Currency Department.*

5770. Is that an unpublished report for the year 1912–3?—This is for the year 1911–2, and was issued on 21st December 1912. This is an article of my own from which I am quoting the words of the Comptroller-General of Paper Currency—not the report itself.

5771. The only figures I know are the figures of the absorption of sovereigns which are given in the return you speak of, and 40 millions is the approximate figure of absorption since 1907–8?—It is described in the return as the figure for "gold in circulation" which "may be taken to be 60 crores." If the report could be produced I have no doubt I could easily find the passage.

5772. (*After examining the report which was produced.*) I think I am right. If the figure be taken in its context it appears to be that of the absorption. The figure is obtained by adding up the sovereigns which have left the Government treasuries and have not come back in the period since 1907–8. It includes, therefore, those sovereigns which were in hoards and those sovereigns which have been melted. You would not maintain, would you, that the 40 millions were in circulation in the sense that they were being used as currency?—I have only the report to go upon. They are in circulation very freely in that part of India with which I am most familiar—West and Northern India; they are in everyday circulation there quite freely.

5773. Forty millions is the same circulation as the notes and about one third of the rupee circulation. You will agree that there is no experience which would justify any such estimate if you interpret "in circulation" as meaning "used as currency"?—The report I have just quoted gives the rupees in circulation as 180 crores.

5774. Perhaps I might read it. In the report there is a table which shows the amount of sovereigns which are issued from the Currency Department each year, and the amount which are returned to it. The balance which leaves the Currency Reserve is called the absorption. Those figures are added up on page 13 of the return to which you refer, and the word "absorption" is constantly used, but I see that it is the absorption of a longer period than I said. The absorption, taking these figures, appears to have been 46 crores between 1905–6 and the date of the report, and the 60 crores seems to be made up by an allowance for previous years. These figures, therefore, include the sovereigns in hoards and those sovereigns which have been melted. The words "in circulation" are, I believe, intended in this passage to mean "taken in absorption," and you would not maintain, would you, that it is at all probable that they could mean more than that?—I have no information to go upon other than the words extracted from the official report. If the official report has printed "circulation" for "absorption," it may be so.

5775. But you have no other evidence whatever?—No evidence other than that Paper Currency Report.

5776. You argue that the Government should put their hearts into the business of urging on a gold circulation?—Yes.

5777. Do you mean by that that they should refuse rupees to those who want them?—No.

5778. You say they acted weakly in only giving sovereigns if the Indian public so desired, and then you go on to complain of them because they have only taken the step of discharging their obligations in sovereigns wherever the payee so desired?—Yes.

5779. You do not imply by that that you want them to give sovereigns where the payee does not so desire, do you?—No.

5780. It is only in those cases where the payees are really indifferent that you urge that the Government should give sovereigns?—Quite so. A large number of the payees are perfectly indifferent, and if the cashiers of the Government, or the Treasury officers, handed out sovereigns, I think they would be quite content with them.

5781. Is that as far as you want the Government to go?—Yes.

5782. I thought in answer to Sir Robert Chalmers you rather implied that you wanted to go further than that, and that you wanted to force sovereigns?—I do not like to use the word "force." I would not say to a merchant who came to my office and said, "Will you please pay me in rupees?" "No, I insist on paying you in sovereigns"; but I might try to persuade him to take half in sovereigns and half in rupees, and in that way induce him to take a certain number of sovereigns. A similar line of conduct might be adopted, I think, by Government officers.

5783. If that policy were followed, you think we should very soon have in active circulation 100 millions?—I think that is quite possible.

5784. Do you include in that 100 millions, gold in the reserve of the Paper Currency?—No.

5785. You mean 100 millions in the pockets of the people, at the banks, and at the treasuries, apart from the Government reserves of gold?—And, let us say, in hoards.

5786. And in hoards?—Yes. The people of India are not always equipped with pockets, and it is quite a usual thing on the part of a native of India to keep his money in his house. Sometimes for the sake of security he buries it in the ground, and it is then generally referred to as a hoard; but what the native has in the ground under his bed is exactly the same as what we should carry in our pockets or keep in the house. The word "hoard" has a very misleading effect upon people who are not familiar with the customs of the country.

5787. I quite agree that you cannot draw a sharp distinction between circulation and hoards. Taking your figure of 40 millions, which I do not accept, as the present figure, that would represent an addition of 60 millions?—Yes.

5788. Do you imagine this would be chiefly at the expense of notes or rupees? Which would it take the place of?—I think it would largely take the place of rupees. It would not wholly take the place of rupees, but it would supplant rupees, I think, to a certain extent. There would be an additional growth of metallic currency habits as well to be taken into consideration; there would be a growth of the opportunity of the use of metallic money generally.

5789. So we should find Government with perhaps 60 millions of rupees on their hands, because I presume you are not assuming this would circulate as well as all the rest of the rupees?—It would take many years to do this, and of course the rupee circulation would have to be used up by degrees.

5790. In your memorandum you say "very soon"?—Yes.

5791. I am not quite clear about this: Is the 60 millions of additional gold to be wholly additional to the rupees now in circulation, or is it to be in diminution of the rupees in circulation?—I think it is largely additional.

5792. All the present rupees will still be in circulation?—Not all the present rupees, because large quantities go over the frontiers, to East Africa, and to different parts of Central Asia, and so get out of sight. Nobody knows what becomes of the rupees; they constantly disappear.

* Published in Gazette of India for Saturday 21st December 1912, pp. 2285–346.

5793. The total circulation of India is variously estimated, but I suppose that nobody would put it at above 160 millions sterling. Would you put the present circulation at about that, let us say, 250 crores of notes and rupees together?—I have not been accustomed to mix the notes with the rupees.

5794. Then let us take them separately?—Taking the rupee circulation, I should think it might approximate—

5795. To 200 crores?—Yes, I should think so—more even.

5796. Say 130 millions sterling. You are supposing an addition to the currency of 60 millions; allowing for the fact that the currency has been very greatly increased—and you rather criticise that—lately, how long do you think it would take India to absorb another 50 per cent?—Possibly seven years to 10 years.

5797. You think seven to 10 years?—Yes.

5798. There has been a very exceptional increase of currency since 1900, has there not?—Yes.

5799. It has not amounted to such a high proportion as that?—India is advancing very rapidly indeed, and the extension of irrigation and the spread of railways is leading to trade developments, so I think she will require a great deal more currency in the near future than has been used in the past.

5800. Your policy is based on these two assumptions—first, that approximately the existing number of rupees will remain in circulation, and next that, in addition to those India will in seven to 10 years absorb 60 millions more of currency?—Not that the present amount of rupees will remain in circulation, because there is a constant disappearance.

5801. Apart from natural wastage?—The natural wastage and disappearance are continually going on. I anticipate that these 60 millions will be added to the currency in gold.

5802. I come now to the question of the reserve. Do you think that, even although the present circulation of rupees remains—when I say the present circulation, I mean reduced by natural wastage in the course of many years—the Government would not still be wanting reserves?—What kind of reserves—the reserves in the Paper Currency Department or the reserves in the Gold Standard Reserve?

5803. I am thinking of the Gold Standard Reserve?—I think when this amount of gold has entered the country the Gold Standard Reserve will be altogether unnecessary.

5804. India would still be in a different position to other countries if she had 100 millions to 150 millions worth of tokens in circulation, would she not?—I do not know. She would not be very different from France and the United States, who have a very large silver token currency in circulation.

5805. But nothing like that?—I forget exactly what the amount is, but they have a large silver token currency.

5806. In the case of the United States the amount of gold that they have is, as you know, enormous?—It is.

5807. And quite out of proportion to the sort of figure you are suggesting here?—Quite out of proportion.

5808. In the case of France it is also very much bigger than you are suggesting?—Yes.

5809. So there would not be a parallel?—The two cases would not be identically similar; they would only be roughly similar, in the sense that there would be a large token currency floating about.

5810. I think I have got the premisses of your proposals rather clearer now. I should like to pass on to your contention that if such a system is to be established, as I now understand you to wish, the system will be more stable than it is at present. You are supposing that out of a total currency of perhaps 250 millions 100 millions would be of gold, is that correct?—Yes, approximately.

5811. There was a further point put that I should like to refer to. I suppose that the sovereign in India is in respect of the purchasing power of the people equal to about a 5*l.* note in England—I do not mean it is that exactly, but a sovereign in India is a large amount?—I do not quite follow the drift of that question.

5812. The drift of the question is this: Do you think that out of 250 millions, part of which will be in notes of high denominations, so much as 100 millions would circulate in coins of so high a denomination as the sovereign?—Yes, if by the word "circulation" you remember that I include hoards.

5813. Semi-hoards we will call them?—Yes, the semi-hoards of the people.

5814. We have a circulation of which, including hoards, 100 millions is gold, 120 millions we will say rupees, and perhaps 30 millions notes. A serious crisis arises in which some part of the circulation is returned to the Government, you would not maintain that only gold would be returned to them, would you?—It depends on the nature of the crisis.

5815. Whatever the nature of the crisis it would not be all gold?—No, probably not.

5816. If it were a crisis in which confidence were shaken in any respect people would rather keep the gold instead of the silver, would they not?—There might be that tendency no doubt.

5817. The Government could not therefore rely upon not having at any rate some important number of rupees returned to them?—Certainly.

5818. And it would have to maintain reserves by which they could cash rupees in terms of the sovereign?—If they maintain their present legislation.

5819. Under any system?—No. It is quite conceivable rupees might not be legal tender over 1,000 or 500.

5820. Would you allow the rupees to sink to a discount?—Such a thing is conceivable.

5821. Your proposal does include that, does it? You would not take steps to prevent rupees, which were circulating in our hypothetical case to the amount of 120 millions, from falling to a discount?—I cannot conceive any circumstances when 100 millions of gold is in circulation in India in which the token coinage would fall to a discount.

5822. If there were any surplus of rupees which people wanted to get rid of rather than get rid of sovereigns, the rupees would be at a discount, would they not?—I could not imagine such circumstances with such a large gold circulation.

5823. You have admitted that the Government would have some rupees returned to them?—Possibly a very large number.

5824. That is to say, the people would, to a certain extent, prefer to dispose of the silver?—Yes, some people would.

5825. If there were no facilities for their doing this, the silver must fall to a discount?—If the crisis were of such a nature that enormous numbers of people wanted to turn rupees into sovereigns, such a thing is conceivable. I do not think it would ever happen, and I cannot imagine it would happen, in practice, but as a theoretical problem such a thing is certainly conceivable.

5826. You would not recommend the Government to take any steps to guard against the possibility, then?—No.

5827. With reference to the Gold Standard Reserve, in paragraph 8 of Part III. of Appendix XXI. (page 558) you have described it as wasteful. You are aware that the Gold Standard Reserve was wholly built up out of the profits of the silver circulation, are you not?—It was originally built up out of the profits of coining silver.

5828. So that if the silver had not been coined, you can say if you like there would have been no need for this reserve, but it would not even have existed?—If the present legislation did not exist, the Gold Standard Reserve would not have existed.

5829. So the present system pays for itself?—I do not understand how a currency system can pay for itself. I do not quite know what that means.

5830. I mean simply that the expenses of maintaining the reserve are met wholly out of the profits of the coinage, and do not form any additional charge?—"There is no expense in maintaining the coinage"? I do not understand what that means at all. The effect of coining a large number of rupees and cir-

culating them at a value very much above their face value, has left in the hands of the Government a large accumulation of money, but I do not know how you could describe that accumulation of money as providing a currency free of cost, or as maintaining the cost of the currency.

5831. I was trying to get at what you meant by calling the Gold Standard Reserve wasteful?—May I ask which paragraph you are referring to?

5832. Paragraph 8 of Part III., page 558?—It would become wasteful in the sense that keeping any metallic reserve is wasteful; the holding of any metallic reserve is a waste of money.

5833. (*Sir Robert Chalmers.*) Like the gold reserve in the Bank of England?—Yes; in a sense that is wasteful.

5834. (*Mr. Keynes.*) If the reserve were brought into existence through the existing system of currency, you cannot call this system wasteful as compared with a system in which the reserve would not even come into existence?—If it were not wasteful, it would not be wasteful; that is all I can say.

5835. I do not understand how that answers my question?—If a system of currency had not been introduced by which this reserve had been created, I could not have said that the reserve was wasteful, because the reserve would not have existed. When gold is freely in circulation there will be no necessity to maintain a gold reserve at all, that is to say, these 20 millions can be turned to account by being used in reproductive works, and therefore, instead of having a certain portion of it, whatever the metallic portion now is, lying idle, it may then be used profitably.

5836. My point is that these 20 millions or so that you use in this way have only come into existence because your policy has not been followed?—No, I cannot admit that at all. I do not know quite what you refer to as my policy.

5837. I refer to your policy of pushing a gold circulation and refraining from coining fresh rupees. If that policy had been followed in the last 10 years this 20 millions which you propose to devote to reproductive purposes would not exist?—Some portion of it would not have existed, certainly. It would always have been necessary to manufacture a certain amount of token coinage, and to the extent of the manufacture of token coinage there would be a surplus lying in the Gold Standard Reserve.

5838. I only wanted to be clear that you were not proposing to supplant rupees by gold, and at the same time to get the advantage of being able to use your Gold Standard Reserve?—There will be no future reserve, or at least, only a very small one. I would only utilise what already exists. The fact that it is wasteful, I think, is generally recognised from the circumstance that Government themselves have invested a certain portion of this reserve in securities.

5839. I want to take up now a point that I have already touched on. In reply to the Chairman you said the main reason for which you wanted a gold currency was to make exchange more stable, and in a further reply to him you said that you do not propose that the Government should take any steps to prevent rupees falling to a discount, though you think it is improbable they would so fall. In those circumstances do you think it is true that exchange would be more stable?—Certainly; I think greater confidence would be felt in the currency if a larger proportion consisted of gold.

5840. If it were known that there was this enormous quantity of rupees, and the Government had taken no precautions to prevent their falling to a discount?—I do not think that would have any effect on the public at all, so long as there was a very large gold circulation.

5841. Now let me compare this as regards stability with the alternative that might exist seven or 10 years hence, if the present policy is followed. I am taking your hypothesis that there is a greatly increased demand for currency—I do not myself think it could possibly grow on the scale you suggest, but assuming there is a considerably increased demand for currency—under the existing state of affairs a certain number of additional rupees would be coined, which would strengthen the Gold Standard Reserve; and a certain number of notes would get into circulation for the larger payments, and that would strengthen the Paper Currency Reserve. Suppose the circulation is increased by 60 millions, then it would not be extravagant to suggest that the existing reserves would be doubled, because they have actually been built up to their present figure with a less expansion of currency than what you are contemplating. So that as regards stability you have got to compare your proposed state of affairs, with 100 millions of sovereigns in circulation or in hoards and a great number of rupees against which the Government takes no precautions, with a state of affairs in which they have reserves double what they have now?—Yes.

5842. Do you maintain that yours is a more stable state of affairs?—I think it is much more satisfactory.

5843. More stable?—Yes, more stable because inspiring greater confidence.

5844. You do actually maintain that at a crisis it would be less likely that exchange would fall under your system than under this one?—Infinitely less likely. If there was a crisis to-morrow, I do not think this gold reserve could be turned to account, or at any rate only a very small portion of it. I am perfectly certain that the portion of the reserves which lies in London in the form of securities would not be realised.

5845. I think that is getting on to rather a different point; you are now criticising the holding of securities?—Yes.

5846. Supposing you compare it with the state of affairs when the reserve is held all in gold?—I find it very difficult to imagine that, at any rate with a Government desiring to put a large portion of it in securities.

5847. That is quite a different argument. As to the alternative between securities and gold, it would be possible for the Government to pursue the main outlines of their existing currency policy, and at the same time to have it all in gold, would it not?—If I am asked the question, supposing the present gold reserves were doubled, and supposing the whole of that gold reserve were held in gold——

5848. (*Sir Robert Chalmers.*) The extra portion?—No, supposing the whole of the reserves were held in gold, then, if I understand Mr. Keynes' question it would be, do you not think in those circumstances that would establish confidence? I say, yes, certainly, if the whole of the reserves were held in gold. But I am very doubtful whether the Government would hold such a large amount in gold.

5849. (*Mr. Keynes.*) Would it be more stable than your alternative proposal?—If the gold were existing in the hands of the people or in the banks, then I think my proposal is equally satisfactory, in fact more so.

5850. Although you have admitted that of the amount returned some part might be rupees?—Yes, that is conceivable.

5851. You think that is a consistent state of mind in which to remain?—I think so.

5852. I should now, in conclusion, like to put the position to you in a rather more general way. I think that all thinking people would agree with what appears to be your contention, namely, that for large payments rupees are a very bad medium of exchange, and that it is not a very good thing to have such an enormous currency of expensive tokens as India has?—Yes.

5853. When I look to the future it seems to me that there are two lines on which she can develop—that which you suggest, and a state of affairs in which Government, instead of encouraging gold, encourages notes. I understand from other parts of Appendix XXI. that you are not opposed to the note issue, and that you do see some advantages from using more notes?—Yes.

5854. Are you clear that, if you compare a gold future and a note future as alternatives, there are not advantages on the side of the notes from the point of view of economy and elasticity, and not least from the point of view of stability?—There are advantages on the side of the notes, certainly.

5855. Is not your gold policy rather likely to kill a note policy?—I do not think so, unless circumstances

prove that gold is more suitable to the requirements of a partially developed country like India, than notes. If the gold replaces notes, I think that is proof positive that the conditions of India are such that gold is more suitable as a monetary medium than notes.

5856. You are not proposing to let things take their course, but you are urging that the Government should actively further gold?—Yes.

5857. They could if they like, in the same sort of way that you describe, actively further notes?—Yes.

5858. It might make just the difference into which scale they put their influence?—I think Government influence should be applied in both directions, both in increasing the note circulation and in increasing the gold circulation.

5859. As an alternative?—I do not think so.

5860. There is a great bulk of small purchases, wages and so forth in which only rupees can be used; there is another set of payments in large amounts in which gold could be used, as is the case in Northern India to-day, or in which notes could be used as is a good deal the case in other parts of India. It is largely a matter of custom and of habit, and of which is made most convenient by the Government, as to which of those two things happens. Is not gold rather a rival to notes than to silver?—At first it is, but I do not regard it as a rival, looking at the policy generally. Just at the moment gold is likely to compete with notes at first. I regard the currency in this way; the development should proceed step by step from silver to gold to notes; that is the natural development. If I am asked if a note circulation is not the most economical form of currency, I say yes, certainly; once we have stepped over the gold step, we will develop the paper step. At present the conditions of India are such that I think she wants to be taught how to make the fullest use of the gold currency before we go on to the notes; but both are desirable unquestionably.

5861. May I say that that theory of the evolution of money is not an historical one? It has not actually been the case, has it?—I think so.

5862. That most of the nations of the world have gone through those stages?—I think most nations of the world have tried to use both metals, and most nations of the world have given it up as a bad job and concentrated their attention on gold and made silver a subsidiary coinage. I think the most advanced nations of the world have come to the conclusion that paper is still more economical than gold, and are using as much paper for gold and as little gold as possible.

5863. Can you name any country except Egypt in which gold has ever formed the principal means of exchange?—If by the principal means of exchange you include the whole of the nation's transactions, no.

5864. Such a proportion as would be represented by gold, if your policy was successful in India?—I think England is a good example of a considerable use of gold.

5865. But in proportion to the whole transactions it would be a fraction of 1 per cent.?—If the whole of the wholesale transactions of the country are concerned, I daresay possibly so; but in India you have 315 millions of people, a very large proportion of whom must handle a metallic currency.

5866. Of course, we all know the state of affairs in England, where the cheque system has made the position of gold and silver relatively unimportant; but apart from that, taking more comparable cases, can you quote any instance which even appears to support your view?—That gold is used more freely than silver?

5867. That gold is used as the principal medium of exchange?—No, I think not.

5868. Or any country in which that ever has been the case?—No, I think not.

5869. So that this process of evolution by which you, first of all, use chiefly silver, then chiefly gold, and then chiefly notes, is a theoretical description?—I do not think I said use chiefly silver and then chiefly gold and then chiefly notes; I meant that the experience of modern nations was such that attention was concentrated gradually on silver, and then on gold, and then on paper. I do not think any country has used gold more than silver or more than paper.

5870. By "attention being concentrated," do you mean in controversial writings or in the currency?—I mean as a mainstay of the currency.

5871. Where has gold been the mainstay of the currency?—Gold is the mainstay of the currency everywhere in the world, as far as I am aware.

5872. Could you mention some particular country?—I cannot mention any country where it is not; for example, gold is the mainstay of the currency in England.

5873. There is an ambiguity in the term; "the mainstay" may mean that the country's reserves are held in gold?—That is what I call the mainstay.

5874. What you are proposing in India is that there should be no reserves in gold?—That no Gold Standard Reserve should be held. I am merely suggesting that this particular amount that now exists, the gold in the Gold Standard Reserve, should not be continued in that form. Of course, there will be gold reserves in the banks and against the paper currency.

5875. I was not speaking of some country in which the reserves were held in gold, but of some country in which the main currency, from the point of view of the actual media of exchange, was gold?—I cannot certainly name a country where, taking the country as a whole and the transactions as a whole, gold money is used more than any other currency.

5876. You are proposing, therefore, a state of affairs in India to which we have no parallel anywhere else?—No, certainly not. I do not suppose gold would be used more as currency in India than any other media of exchange. All over the world the great bulk of the population are poor, and the great bulk of the population use silver coins for currency purposes in all the countries.

5877. I was trying to get at the basis of your theory that there is a sort of natural progression from silver through gold to paper, and I say there is no historical foundation for that view whatever?—History appears to me to support an exactly opposite conclusion; that is all I can say.

5878. As long as Governments were thoroughly untrustworthy nobody liked paper currency, but since Governments have become more trustworthy in these matters, all countries have got as quickly to that as they could, leaving out the gold step. Is that not true?—I think the force of circumstances has compelled countries to use paper, not that they particularly prefer it, but I think they have been so compelled undoubtedly.

5879. For whatever reasons, would you say that is a correct account of what has happened?—Yes.

5880. The point of my last few questions has really been simply this—that there is a great deal to support the view that the alternative is not so much gold or silver as gold or notes, and, historically, recent experience on the part of nearly all countries is in favour of notes rather than gold. If you are to put it on the historical basis, or on the experience of other countries, then the answer would be in favour of notes rather than gold. I think you have conceded as much to me as this, that if it were true that it was between notes and gold, you would prefer notes?—Not for India in its present state of development. If I had to select between notes and gold for a currency medium for India in its present state of development, I should certainly advise every Indian to have a gold coin in his pocket and to pay gold and not notes.

5881. What would be your reason for that?—Because I think a country using a gold currency would command very much greater respect in the world than a country which did not use a gold currency, and only had paper and nothing behind it.

5882. There is only one country that has actual gold as the principal medium of exchange; do you think the prestige of Egypt stands higher than that of most nations and countries?—I cannot say that. I am sure the prestige of India would stand very much higher if she had a gold currency in free circulation all over the country.

5883. (*Sir Shapurji Broacha.*) I asked you a question about 40 millions of silver coin, and you said you meant 40 millions in rupees and not in gold. I then reminded you that there were only 18 millions of silver taken to India?—I remember; that was in the years 1906–7.

5884. You say in one of your letters that "40 millions left with the world at large for the price of the "silver created a plethora of gold in the world and "created a boom in the world"; so you meant 40 millions of gold?—I do not know from which exactly of my many productions on the subject of the currency Sir Shapurji is quoting. The amount of rupees that were coined from 1905 to 1908 I have described as the heaviest coinage on record in the history of the world. It was over 62 crores of rupees. That figure is drawn from the official records and can be verified.

5885. I am quoting from a letter you wrote in November 1912 to which I replied, and in which I wrote about this 40 millions of gold; but I could not challenge your correction at the time, and so I took your explanation as correct; but now I find that it was not so. You actually said "40 millions left with the world," by which you meant "40 millions "of gold left with the world at large for the price "of the silver created a plethora of gold in the "world and created a boom in the world?"—I am not quite sure what point Sir Shapurji is making. I understand him to mean that in a letter of mine written in 1912 I asserted that 40 millions sterling worth of new silver rupees were brought into existence, and he does not think that 40 millions sterling worth of rupees were brought into existence. I thought it was. I have nothing further to say. I think that if the total currency is increased to the extent of 40 millions, and circulates at that face value, it is equivalent to 40 millions.

5886. (*Chairman.*) According to Mr. Abrahams' figure, between 1905 and 1908 there were 64 crores added, which is 42 millions sterling?—I wrote "over 62 crores," and probably at the time I wrote I had not got the exact figures. Sir Shapurji is evidently arguing that 42 millions worth of token money is really not worth 42 millions, but is only worth 20 millions, which is perfectly true of its metallic value.

5887. (*Sir Shapurji Broacha.*) What you have said is that 40 millions of gold was left with the world at large and that made a boom in the world; and now you say that 18 millions created a boom in the world, and American securities and everything else in the world rose?—I think my figures are all right as far as I am able to make out at present.

5888. (*Lord Faber.*) I think the difference between you is that one is talking of the face value of the coin in circulation and the other is talking of the bullion?—Yes.

5889. (*Sir Shapurji Broacha.*) It did not create a boom in the world, did it?—That is a matter of opinion. I think it contributed to the rise in prices which has been in progress ever since.

5890. Has everything gone up in the last six years? Not cotton, which was 7*d.* in 1904, and came down to $3\frac{3}{4}$*d.* in 1905–6. It was a matter of production and demand?—Individual commodities may have sunk in price, and yet the general price level may have risen.

5891. You said in reply to Mr. Keynes that the exchange bank managers' opinion is not to be taken into consideration, because they are interested and look at exchange simply from the point of view of profit?—I did not make exactly that statement.

5892. Is that not your opinion?—No, certainly not. My opinion is that the exchange bank manager to whom you sell Council drafts finds them a very great convenience in the conduct of his business, so it is hardly to be expected that he would criticise that arrangement.

5893. I may tell you that they make the same profit in their business on the Secretary of State's Council bills when he sells bills at $\frac{3}{16}$ as when he sells at $\frac{14}{16}$?—I do not know about that. You may have an inside knowledge of the workings of these exchange banks which I do not possess.

5894. Their opinion is not to be impugned, and it is an honest opinion, because it makes no difference to their profit whether the sales are at $\frac{14}{16}$ or $\frac{3}{16}$?—I think from practical experience that it makes a very great difference. Any bank manager, if he knows that he can at any day of the week put himself in funds by the simple process of buying rupees from the Secretary of State, knows that is a great convenience to him.

5895. (*Sir Robert Chalmers.*) But the price does not, make his profit?—No, it is not the price, but the convenience of being able to get money at a moment's notice.

5896. (*Sir Shapurji Broacha.*) What they generally get is the difference between the price at which they buy from the Secretary of State and the price they buy bills at for export, and the London discount rate, so it does not matter whether the exchange is $\frac{3}{16}$ or $\frac{14}{16}$?—In that case, not a bit.

5897. Their profit being only the difference between the buying and selling rates?—Exactly.

5898. So it would be no advantage to them, in giving their evidence, to mislead the Commission?—Not a bit.

5899. I thought you were rather, may I say, unjust in impugning their creditableness in what they said to the Commission?—I have no knowledge of what the banks have said to the Commission.

5900. You are a merchant, and you know the position of these things yourself?—I know that a convenience of this kind is a convenience, and I should hardly expect those who benefit from the convenience to criticise it very severely.

5901. It is the same with exporters and importers. You do not mind, when you buy wheat, what the exchange is, so long as you can make your 1 per cent. or 2 per cent. profit?—Not a bit.

5902. It may move alternately one way and the other, but to the man who does a commission business like yourself, or to a bank, it makes no difference what the exchange rate is?—Not from day to day.

5903. You say you have to make your calculations for a month or for a week ahead as to the rate you do your business at, but in which country have they not to make that calculation? Do you not see in the papers one day that the Paris exchange is one point against us, and the next day it is two points in our favour? That is a thing which a prudent merchant will take into account, and the Secretary of State's differences are not more. I think you said that Government were not able to sell their bills between 1893 and 1893 at 1*s.* 4*d.*?—I do not think I made any assertion of that kind, but I think it is approximately correct.

5904. You gave as one of the reasons that the market was flooded with rupees?—Yes, at the beginning of the period.

5905. Supposing you had in the currency 50 crores of rupees, and the market was flooded at the time, yet if your export was 50 crores and your import 20 crores, how would it affect the rupee at all—the balance of trade must be paid?—I do not know exactly what the question is.

5906. You thought that the rate of exchange did not lift itself up because Government flooded the market with rupees?—That is my opinion.

5907. But I say that if the export was 50 crores and the import, say, 10 crores, or if the export is 60 crores and the import 30 crores, how would the rupee interfere with the exchange coming up? Foreign nations must pay, must they not?—Yes.

5908. Yet with all that, Government were not able to lift the exchange to 1*s.* 4*d.*?—Because the circumstances could not be as your hypothesis suggests.

5909. There may occur a year when the Secretary of State is not able to maintain the exchange at 1*s.* 4*d.*; on your policy what would you do?—Ship sovereigns from India.

5910. On which account?—Sovereigns would be shipped from the Treasury balances in India to the Secretary of State in London on his account for the payment of home charges.

5911. From the Government of India?—From the Government Treasury balances.

5912. Do you remember the last crisis?—I remember the crisis of 1907–8.

5913. There were about 4¼ millions of sovereigns issued then, and only a quarter of a million came to the help of exchange, so that instead of the people giving out sovereigns, they took them away?—Yes, owing to the scare created by the Government's mismanagement.

5914. Do you know that the Government, as a matter of policy, pushed the sovereign between 1900 and 1907 until sovereigns went to a discount?—The sovereigns did not come out between 1900 and 1907.

5915. At the time of the crisis, notwithstanding all the accumulation of sovereigns in the hands of the people, not a single sovereign came out, but, on the contrary they applied Gresham's law, and the cheaper metal was driven out for the dearer?—The Government themselves depressed exchange to below 1*s.* 3$\frac{3}{4}$*d.*, and thereby made the sovereign so valuable that the people commenced to hoard it. But that was entirely owing to the Government's own action in failing to release the gold when it was required.

5916. It did not help exchange then?—On the contrary, Government very nearly broke the exchange down altogether,

5917. Do you think when exchange is falling, or when exchange is wanting in confidence, any gold will come out for rupees?—Certainly.

5918. Do you know the law that the depreciated metal will be thrown against the appreciated metal?—I am very familiar with it.

5919. You say that there is a redundancy of token coins?—To which year do you refer?

5920. Take any year you like?—I do not think there is a redundancy of the rupee currency at this moment.

5921. Then why do you prevent Government from buying silver?—I am not preventing Government from buying silver.

5922. Do you know what is the amount per head of population in the Currency Department now in rupees?—I should think it would be very small.

5923. Do you think it is as small as in the Bank of France? What is the number of 5-franc pieces per head of population there?—I have not the remotest idea.

5924. Do you know what is in circulation in France per head—it is 25 rupees. Taking Mr. Keynes's calculation of 164 or 165 crores in circulation, that would come to something like 5½ rupees per head in India. You know, of course, that business in India is a cash business?—Yes, very often.

5925. They have not the instruments they have in Europe, such as bills, to take the place of cash?—Not so many of them, but there are some.

5926. Therefore they require more money for exchange?—They do require more coins.

5927. They should have more coins per head than any civilized country, because civilized countries have other instruments?—That does not in the least follow.

5928. It must follow?—Not in the least. I think that depends on the amount of trade that they do.

5929. It does not matter at all what trade they do. India has a very large trade, more than any other part of the British Empire, and I say there is no large rupee circulation at all?—I have no complaint to make of the rupee circulation at the moment.

5930. Do you not think that if France has 25 rupees in circulation India should have 10?—I do not think any comparison can be made between the economic condition of France and the economic condition of India.

5931. Do you know that any other gold is dearer than sovereigns to bring out to India?—I think it all depends on circumstances.

5932. Give me the circumstances under which it can be cheaper?—Ordinarily, it is cheaper to import sovereigns than gold in any other form, but it depends on the betterness of the gold.

5933. I say to bring in gold in any other form, no matter what the betterness may be, is dearer than to bring in sovereigns?—I can hardly agree with that conclusion.

5934. (*Sir Robert Chalmers.*) Would it be cheaper to take 10-ounce bars from Australia?

5935. (*Sir Shapurji Broacha.*) Show me how you can bring gold cheaper than in the form of sovereigns?—If depends on the betterness of the gold. Ordinarily it is not cheaper to bring uncoined gold; it is ordinarily cheaper to bring sovereigns.

5936. (*Lord Faber.*) Do not forget that the price of gold in the London market is never below 77*s.* 9*d.* That is the standard at which the Bank of England has got to take it. Therefore, Sir Shapurji is right there, because you cannot get less than a certain price for sovereigns?—I understood Sir Shapurji's question to be whether it was possible to import gold into India in any cheaper form than in the form of sovereigns, and I say that it depends upon the quality of the gold bar that is imported. It would not, of course, pay to import polished gold bars. If the rough gold bar contains a larger percentage of alloy than a sovereign, then it might be cheaper to import such gold bars, but if the gold bars contain metal of the same fineness as the sovereign, then it is usually cheaper to import sovereigns than to import the gold in any other form.

5937. (*Sir Shapurji Broacha.*) Let me say that you are absolutely wrong, commercially?—I do not think so.

5938. (*Lord Faber.*) The price of bar gold varies in the London market, but the price of sovereigns never varies?—I take that from you.

5939. (*Sir Shapurji Broacha.*) You say in paragraph 5 (*a*) of Part II. of Appendix XXI. (page 555) that no Council drafts should be sold under 1*s.* 4$\frac{1}{8}$*d.*, but now you have modified that and you are ready to give a grace to the Secretary of State to sell up to about 1*s.* 4$\frac{1}{16}$*d.*?—That passage means that he ought not to have sold at less than 1*s.* 4$\frac{1}{8}$*d.* in 1898-9. That is what that paragraph refers to. You will see it has reference to the previous paragraph stating the policy which was followed in 1898.

5940. It does not refer to subsequent times, you say?—No.

5941. Can he sell now, then, at any rate he likes?—Yes, but I think 1*s.* 4$\frac{1}{16}$*d.* is a suitable rate.

5942. Is he to be bound to your dictum of three years ago when you said it should be 1*s.* 4*d.*?—The 1*s.* 4$\frac{1}{8}$*d.* referred to the circumstances in those days.

5943. You know you wrote letters to the papers, including the "Economist," stating that the Secretary of State should not sell over 1*s.* 4*d.* and must sell to all comers? That is what you advised the Secretary of State to do? Supposing he had done that then, would he be pilloried for not doing so now?—My present recommendation is that the rate should be 1*s.* 4$\frac{1}{16}$*d.*

5944. You have changed your opinion, then, in the last three years?—Yes; that is different to what I suggested five or six years ago.

5945. No, three years ago?—I am not quite sure about that.

5946. In July 1910, you sent a letter to the "Economist," when the Indian papers and the Indian chambers would pay no heed to your suggestion?—It is quite possible.

5947. So you have changed your opinion now?—The rate that I now recommend is 1*s.* 4$\frac{1}{16}$*d.*

5948. We cannot both do what you recommend at one time, and what you recommend at another time?—Circumstances change.

5949. So I say; and yet you ask us to follow the report of the Fowler Committee in its entirety?—Yes.

5950. Suppose they are able to bring gold from Australia or from Egypt where they can get it to-day at 1*s.* 4$\frac{1}{64}$*d.* I suppose you have read in the papers that the Government has been receiving gold from Egypt?—Sometimes.

5951. Is now?—I do not know what is happening at this moment. Do you say that gold is coming from Egypt to London?

5952. Yes, that is the principal country where gold is coming from. It means that gold could be sent to India at 1*s.* 4$\frac{1}{64}$*d.*?—Quite possibly.

5953. Suppose gold is coming from Australia, Egypt, and other places, on the basis of 1s. $4\frac{1}{16}d.$, and rupees are wanted, what should the Secretary of State do?—If the Secretary of State in those circumstances is short of funds, it would be necessary for him to reduce the rate, or to ship sovereigns home from India.

5954. And lose $\frac{1}{16}$th?—He would have to adjust matters.

5955. He would have to do that in order to follow out your policy of making a profit?—In order to follow out my policy of getting the best possible terms for India.

5956. You have laid down the dictum that the Secretary of State should not have more money than three millions, and that he should not sell under 1*s.* $4\frac{1}{16}d.$; the Secretary of State would require about eight millions between April and November, would he not?—Quite possibly.

5957. What is he to do for that extra five millions—he will not have any more money left to disburse?—I think I have already suggested that where the Secretary of State is unable to sell his drafts it may conceivably be necessary to ship home gold from India; or if his exchange be fixed at a rate which precludes him from selling drafts, it might be necessary to re-consider the rate.

5958. The Secretary of State is not able to sell in the meantime between April and October at the price you fix for him?—Then let him ship home sovereigns from India.

5959. If there are any?—Certainly.

5960. But if there are not any?—If there are not any sovereigns in India, exchange will collapse.

5961. Then your remedy is that the stability of exchange will collapse in circumstances like that?—No, I have not suggested any collapse.

5962. Do you know that for such times Russia leaves 60 millions in Europe in charge practically of France and England?—You gave me that information this morning.

5963. Having regard to possible contingencies should not the Secretary of State have a year's drawings in advance?—I do not think it is in the least necessary.

5964. Yours is a hand-to-mouth policy. Where has the Fowler Committee fixed the exchange at 1s. $4\frac{1}{16}d.$; is there any paragraph in which it has fixed it?—I do not think so.

5965. Have you any support for these opinions of yours in India?—Yes.

5966. Where?—In the Bombay Chamber of Commerce.

5967. The Bombay Chamber of Commerce are not supporting you, are they?—In several respects.

5968. Not in any one of these respects that I have been asking you about; nor the Calcutta Chamber of Commerce?—I do not know exactly to what particular point you are referring, but in several respects the Bombay Chamber of Commerce take the same view as the Karachi Chamber of Commerce and the Upper India Chamber of Commerce; in fact, all the Indian Chambers of Commerce, except Bengal and Madras, take the same view as the Karachi Chamber of Commerce on several of the questions which this Commission is enquiring into.

5969. (*Sir Robert Chalmers.*) Have you got any support outside Karachi for your fixed rate?—I do not think that question has been widely investigated, but some years ago when I personally suggested a fixed rate it met with no support generally.

5970. (*Sir Shapurji Broacha.*) You say in paragraph 4 of Part II. of Appendix XXI. (page 555) that according to Professor Dunning MacLeod, a gold standard without a gold currency is unthinkable?—That was Professor Dunning MacLeod's opinion.

5971. That has not been supported by the Fowler Committee?—The Fowler Committee, that is, the Indian Currency Committee, looked forward to a gold currency as an essential part of the scheme.

5972. I think there is no gold currency in any country at all. You put down the Indians for savages for not having a gold currency, but where is there a gold currency—in England?—I think there is a gold currency in England.

5973. According to you they have not increased their gold reserve by a million in the last 10 years?—The Bank of England has not increased its reserve very much in the last 10 years.

5974. That is not a very good example to follow, is it?—I think it is not a good example for India to follow.

5975. Beyond England is there any country where there is a gold currency?—Yes.

5976. Where is it?—There is a gold currency in Australia, and in Canada and in South Africa.

5977. No; gold is not used in Canada, and South Africa does not want a mint?—I do not know what the authority for that assertion is.

5978. Do you know that last December the people of Germany could not get gold under a premium of 1 per cent.?—I do not know what happened last December.

5979. Suppose there is a gold currency and Government is not able to supply against rupees, what then? If you have a gold currency that means you have to give gold against all rupees tendered, does it not?—No.

5980. What is it then?—There is no connection between a gold currency and Government supplying gold for silver. I do not think the Government supplies gold for silver in any part of the world.

5981. Allow me to differ from you. A gold currency means that you have to give gold against all rupees tendered?—I do not attach that meaning to it myself.

5982. What meaning do you attach to it?—By a gold currency I mean gold used for the purpose of trade as between buyers and sellers.

5983. That is not a gold currency; a gold currency means that you have to give sovereigns against all rupees tendered?—I have never heard that view of the question put forward before.

5984. You have cheques and other instruments in England, so that no more gold is used here than the people have in their pockets; but if the Bank of England were asked against the tender of notes to give gold, the Bank of England is bound to give gold in accordance with the Act of 1844?—I believe that to be quite correct.

5985. That is the meaning of a gold currency?—I have never suggested that a gold currency should mean that the Government of India should be under an obligation to supply gold in exchange for silver.

5986. If language is meant to give a meaning to words, then a gold currency means that?—I have never heard such a meaning put to it before.

5987. (*Sir James Begbie.*) You think that the sovereign is the best gold coin to use as currency in India?—Yes.

5988. Would you also issue a subsidiary gold coin?—I do not think so.

5989. You would only issue a 15-rupee coin?—I think so at present. If subsequent experience showed that it was desirable that a smaller coin should be coined, then I should have nothing to say against it, but to start with I think it would be wise to take the coin that is already in circulation and is known.

5990. Is it not the case that 10-rupee notes are more favoured in certain districts than in others?—Yes, I believe so.

5991. And the same thing may also be said of the 5-rupee notes?—Yes.

5992. Do you not think it is possible in those districts where metallic currency is wanted, a 10-rupee coin might encourage the use of gold?—Yes, I think it is quite possible.

5993. (*Mr. Gillan.*) It is quite obvious from the questions that were put to you by Sir Shapurji that the term "gold currency" is one that has different meanings to different minds; but you have, I think, defined what you mean. Will you look at Part VIII., paragraph 2, of Appendix XXI. (page 568)? There you speak of a "pucca gold currency system of the British type"; that is what is in your mind?—Yes.

5994. The first thing I wish to ask you about that is whether you consider that that is really in accordance

with the recommendations of the Fowler Committee?—I think so.

5995. In paragraph 54 of their report they said that they looked forward "to the effective establishment in India of a gold standard and currency"?—Yes, that is so.

5996. But they went on in the next paragraph to point out that "Under an effective gold standard rupees "would be token coins, subsidiary to the sovereign. "But existing conditions in India do not warrant the "imposition of a limit on the amount for which they "should constitute a legal tender; indeed, for some "time to come, no such limitation can be contemplated." Then they conclude in paragraph 59 that things being as they are in India, they must be content with a system such as exists in France and the United States?—That is so.

5997. How do you reconcile your present recommendation with those recommendations?—I think those recommendations were very wise when they were made. I understand them to mean that in those days, when the question of introducing a gold currency was being considered, the members of the Committee did not think it possible to impose a limit on the amount for which rupees should be legal tender; but I take it that in course of time when there is plenty of gold in the country it will be possible to impose a limit on the amount of token coinage that is legal tender, and that is the direction in which I imagine India is progressing. The time will come when the gold is circulating so freely that it will be possible and desirable to impose a limit on the amount of rupees that are legal tender.

5998. Then this British type of system that you speak of is not a thing that is immediately obtainable, but it is something to look forward to in the future?—In the near future.

5999. You would not, as a matter of fact, have that type of currency system until you are able to make the rupee a subsidiary coin?—I would not suggest that a limit should be imposed on the amount of rupees that are legal tender until such time as there is a more general currency of gold than at present.

6000. But you recognise that the relegation of the rupee to a subsidiary qualification is a necessary condition before this particular type of currency system which you have in your mind can be established?—Yes.

6001. I am not clear that I quite understand the general grounds on which you favour a gold currency. You do not object to notes, do you?—No, provided they are based on gold.

6002. Why should it be more necessary to convert silver notes, so to speak, into gold rather than paper notes? In the case of your silver currency you have a currency which carries, at any rate, a substantial portion of its value, and you have got to provide only against the margin of difference, whereas in the case of notes you have to provide a reserve covering the whole value?—That is so.

6003. Then why should you lay particular stress on converting your metallic currency into gold?—Because I think that in the eyes of the world a gold currency commands more respect and establishes greater confidence than a silver currency.

6004. What would your proposals actually involve? I think you have already said, in reply to Sir Shapurji, that they do not involve the undertaking by Government of any obligation to give gold for silver under all conditions?—No.

6005. As regards the practical steps to be taken, Government cannot refuse, as a matter of fact, to give rupees when a demand for rupees is made?—Not at present.

6006. It cannot refuse to coin rupees in order to meet those demands?—Not at present.

6007. I understood from an answer you gave Mr. Keynes that in making payments it can show a preference, as it were, for gold, but only when the payee is, so to speak, indifferent?—I think it might go a little bit further. I think Government might use a little gentle persuasion to facilitate the further use of gold. I would not go so far as to suggest that Government should force gold upon reluctant payees, but where a payee is more or less indifferent, Government can persuade the payee to accept payment in gold, or even where the payee demands payment in silver it may be suggested to him that he can take a portion in gold and a portion in silver. I would not carry the compulsion to the extent of declining to give the payee silver.

6008. (*Lord Faber.*) Would you do what they do in English country banks who have a currency of their own? When a customer comes to the counter and presents a cheque for 10*l.*, the cashier, if the customer says nothing, gives him two notes, and then it is for the customer to say, "I would rather not have the notes; I will have something else," and he gets it?—Exactly; in the same way I should give the gold, and if the public said they would rather have rupees, very well, let them have it.

6009. (*Mr. Gillan.*) But the Government should tender gold?—Yes.

6010. I take it your general position is that you look forward at some future time to the establishment of the particular kind of currency you favour, but at the moment the only recommendation you can make to Government, apart from the establishment of a gold mint, would be that they should use persuasion of the kind that you have mentioned and tender gold in making any payment they have to make?—Yes.

6011. That is the only practical point at the present moment?—Yes—that Government should encourage the use of gold as currency—not force it, but encourage it.

6012. In connection with the questions put to you about giving rupees and coining rupees, there is one question I was going to ask with regard to paragraph 4 in Part V. of Appendix XXI. (page 562). Incidentally, there you say, "The silver coinage ought to be re-"plenished regularly and continuously in small sums (so "as not to inflate unduly the local currency)"; how is that to be managed?—If Government were to coin regularly a fixed amount, say 5,000*l.* a week, and they found that the silver proportion of the paper currency reserve was steadily increasing every week, I should then understand that Government are providing too much token currency, and I should cease coining token currency under those circumstances. What I would suggest is that the Government should buy silver regularly every week, and continuously coin token currency to replenish the coinage; but if after, say, a year the amount coined showed that the amount of silver in the paper currency reserve was increasing unduly, I should stop that policy. I should consider in that case that the currency was being unduly inflated.

6013. Would there be any difference in the amount of rupees that actually went out into circulation?—Any difference under what circumstances?

6014. Under the practice which is at present followed by the Government of India of coining occasionally, and under the practice you recommend of coining continuously?—No, not very much difference. The only difference would be that in one case the supply of token coinage would be regular and methodical, and in the other case it is irregular and spasmodic.

6015. Do you mean in supplying the currency reserve?—In supplying token currency—in creating token currency.

6016. (*Sir James Begbie.*) The demand for silver currency in India might be irregular and spasmodic too?—Yes.

6017. (*Sir Robert Chalmers.*) Would not the demand be your chief guide?—If the Government do as they have at present been doing, waiting, perhaps, for years until they at last decide that the time has come to coin more silver, I think that procedure is undesirable, because it enables silver speculators to force up the silver market. I think it is desirable to coin a small quantity regularly, and to keep the currency supplied.

6018. (*Sir James Begbie.*) When would you resume the purchases of silver under your scheme?—Straight away.

6019. Under what conditions?—A small regular amount every week.

6020. What would be the time to begin these purchases?—At any time—to-morrow.

6021. Would it happen because the silver reserve was falling?—No. I should suggest that the coinage goes on regularly week by week in small quantities, attention being paid at the same time to the amount of silver in the Paper Currency Reserve.

6022. (*Chairman.*) Suppose the Indian Government had been pursuing that policy when the crisis of 1907–8 came upon them; at that time the public, instead of presenting a demand for more rupees, returned rupees?—That was so.

6023. Would you have stopped at that moment?—Instantly; in fact, I should have stopped before that moment; I should have stopped when I saw that the proportion of silver in the Paper Currency Reserve was mounting up.

6024. You would have stopped as soon as they ceased to take rupees out, without waiting for them to bring rupees back?—Yes.

6025. And you would not have begun again until they began to take rupees out?—Yes.

6026. If in the meantime an unusual number of rupees had accumulated, you would postpone your recommencement until that unusual accumulation had been worked off?—Yes, if it were large.

6027. Would it have made a very great difference if they had pursued that policy?—It depends on the amount that was coined week by week.

6028. It took them a long time to work off the accumulations which resulted from the crisis of 1907–8, did it not?—Yes, many years.

6029. You do not suggest that in the interval between that and the time when they coined again, there was any shortage of rupees, do you?—No, I do not think so.

6030. Possibly then the Indian Government might say that in effect they had carried out your policy, that when the demand began again it was a very unusually large demand, and that therefore they had to buy at once, and immediately, very large sums?—Such a point of view, of course, I can understand, although I do not concur in it.

6031. You think they might well have begun by small amounts?—Yes. Might I give Mr. Gillan the information he asked for yesterday, which I was unable then to produce? Mr. Gillan asked that I should give him the periods when the cash balances of the Government of India were as low as 7 millions. I find these are the dates: In 1905, in the months of November and December; in 1906, in the months of November and December; in 1907, in the month of December; in 1908, in the months of November and December; and in 1909, in the months of October, November, and December. On all those occasions the cash balances of the Government of India were in the neighbourhood of 7 millions to 8 millions.

(*Mr. Gillan.*) I am sorry, Mr. Webb has had unnecessary trouble, because he is looking at the balance at a different time of the year. That is the time of the minimum balances in every year.

6032. (*Chairman.*) You suggested 7 millions as a maximum, I think?—Yes, as a working balance.

6033. Which ought not to be exceeded?—If it can be avoided.

6034. If the Government of India made an endeavour not to exceed that figure, or only to exceed that figure by a very small sum at one time of the year, would it not follow that it would have a very much less sum at another time of the year?—I can quite conceive it.

6035. In other words are you not measuring the maximum demand on the balances of the minimum?—I do not think it is a question of the demand on the balances; it is a question of the amount of cash which Government shall keep in its till. In those months it keeps 7 millions or 8 millions in its till, and if in the other months there is an excess over that amount, it might very well be given back to the public through the agency of the banks, so that it should not be kept locked up in the Government Treasury.

6036. Whenever it exceeded that sum?—Yes, it might at once, because, I argue, from the existence of these sums, that it would be possible for Government to go on at other months in the year with the same amount in their Treasury.

The witness withdrew.

At the India Office, Whitehall, S.W.

FOURTEENTH DAY.

Thursday, July 17, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

The Hon. MONTAGU de P. WEBB recalled and further examined.

6037. (*Chairman.*) We took you through a good deal of your memorandum last week. I want now to turn in the first place to the question of the Gold Standard Reserve. May I take it that you approve of the establishment of a gold reserve?—Yes.

6038. I think you say you would prefer to call it a gold reserve rather than a Gold Standard Reserve?—Yes.

6039. What is your idea of the total which should be reached by that reserve? If you have not fixed any figure in your mind, say so?—Yes, I have fixed a figure. In past conditions I have regarded 20 to 25 millions as being adequate, but with the establishment of a gold currency I do not think any gold reserve is necessary at all. As we approximate to the condition where gold is in circulation and in common use as currency, so do we come to a stage when no gold reserve or Gold Standard Reserve will be necessary at all, but until that stage is reached I think it ought to be in the neighbourhood of 20 to 25 millions. That is quite sufficient, I think; in fact, I think it is more than sufficient as things are at present.

6040. You gave your opinion of the establishment of a gold currency, and the effect of it, last week, and I do not propose to raise that again to-day. I am now dealing with the condition of things which prevails as long as there is no such gold currency as you desire to see established?—Then about 25 millions would be my answer.

6041. Of that amount how much do you desire to see kept in actual gold?—I should like to see the whole of it kept in gold.

6042. I think you speak in your memorandum of keeping a portion of the securities in London?—That is as a concession to the situation in London.

6043. But you would prefer that the whole should be in gold?—Yes.

6044. Whether in London or in India?—Preferably in India.

6045. Do you not think that there would be some excess of caution in locking up so large an amount of money as 25 millions without attempting to earn interest on any portion of it?—I do not think so. I regard it as essential.

6046. Now I come to the question of where the gold should be kept. You desire to have the whole of it kept in India, or as much of it as you can persuade the authorities to keep there?—Yes.

6047. You say in paragraph 5 of Part IV. of your memorandum (page 560) that the object of the reserve "is to provide gold in India for export if required"?—I think so, yes.

6048. Why do you so limit it—that the object of the reserve is to provide gold in India for export?—Because that appears to me to be the only and complete object of the reserve.

6049. To where would it be exported?—Probably to London.

6050. Under what circumstances?—In the event of a reversal of the balance of trade or in the event of a crisis in London. That would involve, of course, a reversal of the balance of trade.

6051. Then you do contemplate that when you have to draw upon this gold reserve the place where you would want it ultimately, if not immediately, is London?—Probably, yes.

6052. I understand that you do not think that that is a reason for keeping it in London?—I think it is altogether outside the duty of Government to go so far.

6053. A great number of witnesses have put to us that, as London will be the place where the gold will be required in the circumstances which you have foreshadowed, London is the best place to keep it. That is not your view?—That is not my view, no. My chief reason being that for many years past it has been recognised that the reserves of gold in London are slender in the extreme, if not dangerously slender, and in those circumstances I do not deem it wise to risk the currency situation in India by putting 25 millions of India's reserve in that same centre.

6054. Your real objection, as I understand, to keeping it in London is a fear that if it were in London it would be used for the convenience of London, and not for the security of the Indian exchange?—That is my main objection, yes.

6055. You hold that view even though the gold here be earmarked, as it is called, at the Bank of England?—Yes.

6056. You are of course aware—at least, I presume you would be aware—that that is not the view held by London bankers?—Yes.

6057. They consider that earmarked gold at the Bank of England is wholly outside the reserves on which they work and count for the purposes of London?—That is the ordinary practice in ordinary conditions, but in a state of crisis or panic I could not imagine for one moment that that earmarked gold would not be appropriated for urgent needs of State.

6058. In fact, you are afraid that, under the stress of such a temptation, the Chancellor of the Exchequer would raid the Secretary of State?—I think he would be sure to.

6059. And in order to guard against that, you would keep the gold in India?—I think it would be an additional source of strength to both sides.

6060. That would mean that while you were building up the reserve you would have to be remitting the gold to India, would it not?—Yes.

6061. And when you were using the reserve you would have to be remitting the gold home from India?—Yes.

6062. Paying something for passing it first in the one direction and then in the other?—Yes.

6063. But in spite of that—as some people would say—wasteful expenditure, you desire it for the reason which you have given me?—Yes.

6064. As a security that it shall be available for India?—Yes. May I add that in my belief the gold which has been earmarked in the past has, on more than one occasion, been unearmarked, if I may so use the expression, at the discretion of the Secretary of State. I believe that on more than one occasion gold has been earmarked by the Secretary of State, and then on another occasion the Secretary of State has removed that restriction and used the gold in other ways.

6065. Can you give me any instance which you have in mind which would bring before us more exactly the circumstances in which it was done?

(*Sir Robert Chalmers.*) With specific reference to metallic gold?—I cannot give the dates without making reference, but I remember distinctly that gold has been earmarked for the Gold Standard Reserve, and I think for the Paper Currency Reserve as well, and it has been released from that restriction at the discretion and request of the Secretary of State, but without any reference, that I am aware of, to India.

6066. (*Mr. Keynes.*) Are you referring to the case of 1907–8, when, to meet his own needs, the Secretary of State unearmarked a certain amount of gold?—That is one of the occasions.

6067. (*Chairman.*) Was not that a way of making the gold reserve available for the very purpose for which it exists?—In 1907–8, yes.

6068. There was no objection to doing that?—There was no objection, no. I am only drawing attention to the facility with which this gold is earmarked and the restriction taken away again as required by the Secretary of State. It is my belief that in a grave national emergency the Secretary of State would be persuaded to take similar action again. That is what I meant by the Secretary of State being raided.

6069. (*Sir Robert Chalmers.*) By the Secretary of State and for India's needs?—In the judgment of the Secretary of State.

6070. (*Chairman.*) I think you do not criticise his judgment in the past?—I think the judgment used has been very defective in recent years, and unreliable.

6071. But do you criticise the exercise of his judgment in this particular respect?—No.

6072. You have alluded to those occasions where he unearmarked gold to show the facility with which it could be done?—Yes.

6073. But I do not understand you to say that it was improperly done or done with an improper reason?—No.

6074. Now we pass to the Paper Currency Reserve, From the opening words of Part V. of your memorandum (page 561), I gather that you approve of the existing system of paper currency managed by the State?—Yes.

6075. And that you would not advocate its transfer to a central bank?—No.

6076. You object to the holding in London of gold belonging to the Paper Currency Reserve?—Yes.

6077. On what ground—on the ground that the Paper Currency Reserve is for the encashment of notes?—Yes.

6078. And that the notes will be presented in India?—Yes; and that, therefore, the metallic reserve cannot be required under any conceivable circumstances in London.

6079. The reserve held in London, I think, is held in gold?—I believe so, yes.

6080. We have had it in evidence that the great advantage of holding that gold in London is that it provides a means of making the paper currency elastic?—Some of the Paper Currency Reserve, if I may be permitted to correct myself, is held in London in securities, or has been held in London in securities.

6081. I was talking of the bullion portion. We have had it in evidence that the great advantage of holding gold in London is that it provides a means of making the paper currency elastic. Do you follow that?—No, not at all. I am familiar with the official argument, but I cannot accept it.

6082. The argument being that that is because the circulating medium can be expanded quickly against that deposit of gold in London?—Yes.

6083. You do not accept that argument?—No.

6084. Do you think it untrue in fact, or is your criticism that it does not support the structure which is raised upon it?—I think that the manipulation of the paper currency has been effective in the respects to which you refer, but I regard it as a very undesirable manipulation.

6085. Apart from that, the paper currency system at present is very inelastic, is it not?—I am not quite sure that I understand the question.

6086. There is little power of expansion to meet a great demand in trade pressure; I mean a temporary demand. I will put it in another way—the fiduciary portion of the issue is a fixed sum?—Yes.

6087. Beyond that notes can only be issued against the deposit of coin or bullion?—Yes; in that sense it is inelastic.

6088. Do you think that advantage would be derived by India if more elasticity could be introduced into that system?—Yes.

6089. It has been suggested to us by some witnesses that the fiduciary portion of the issue, instead of being a fixed amount, might be some proportion of the whole?—Yes.

6090. What do you say to that?—I think that would be a wise principle to adopt.

6091. Have you any figure in your mind as to the proportion to which you think it would be safe to go?—I think that a step further forward may be made than is at present being taken. I do not know exactly what proportion, but I think that we might go further forward than we have done in the past.

6092. It has been also suggested to us that for the sake of meeting the trade needs in the busy times the whole of the fiduciary portion should not be permanently invested, but that a part of it, probably a small part of it, should be left to be lent out on the market in busy times. Would that commend itself to you?—Yes, I think so.

6093. If that were done would you still want the Treasury balances lent out in the manner which you explained to us last week?—Yes, I think so; I think if Treasury balances are accumulated in excess of the requirements of the State the right course for the State to take is to make that money which has been collected in excess of requirements available to the public through the banks.

6094. In the course of your criticisms of the present management of the Paper Currency Reserve you quote the reply of the Under Secretary in the House of Commons to Mr. Gwynne; it is subsection (*c*) of section 3 of Part V. (page 562): "Investments in sterling securities in "London are better for India than investment in Govern-"ment of India rupee paper, because such securities are "not necessarily influenced by the causes which might "shake public confidence in the Indian paper cur-"rency." I think you quote that observation for the purpose of condemning it; but is it not true?—It is true in a sense, but if there were no portion of the paper currency lying in London at all it could not be invested in English securities, and there, in my opinion, the argument is unsound.

6095. Because there ought to be none here?—Because there ought not to be any there. My other reason for quoting that is merely to show that it is in conflict with other explanations and arguments which have been used.

6096. In paragraph 7 of the same part of your memorandum (page 563), at the end, you say: "Indeed, "did the crisis happen to be a western crisis rather than "an Indian crisis, the gold"—you are speaking of the Paper Currency Reserve gold—"would be far more "valuable to India (and possibly to Great Britain) "were it held in India rather than in the United "Kingdom." Will you explain that to me? I do not follow your reasoning?—If the crisis happened to be a western crisis there would probably be a shortage of gold in London, and in such circumstances the shipments of gold from India to London would tend to relieve that crisis, but if India's gold was held in London the demands of India for that gold would tend to accentuate the crisis.

6097. Why would India demand the gold? If the ultimate need of the gold was in India, then if it were issued in India it would not come to London?—No, if the ultimate end was India, but in a case of crisis in London there would be a demand for money in London, and that demand would show itself in a request to the public of India to remit their money to London to assist in overcoming the crisis; but if the money were in London, then the recovery would be through the agency of the Secretary of State; that is to say, the public would go to the Government of India and take over the drafts from the Secretary of State which in a crisis he might not be able to cash; but if the reserve were held in India in gold there would be no difficulty in anybody taking their metal from the treasuries and shipping it to London.

6098. But is not there exactly the same amount of gold *ex hypothesi* in either case?—Yes.

6099. In one case it is in the control of the Government of India?—Yes.

6100. And in the other case it is in the control of the Secretary of State in London?—Yes.

6101. In either case it is wanted by India to settle an adverse balance of trade with London?—Yes.

6102. Except in point of time, what difference is there between issuing from the treasuries in India and issuing the gold from the Bank of England in London?—The difference is this, that if the paper currency reserve is held in London, probably the whole of it would not be in gold, but largely in securities. The portion that was in gold would be liable to be appropriated for other purposes in a severe crisis, whereas if the gold were held in India the gold would be obtainable for the public and would not be affected by the crisis taking place in London, so that the public could ship their gold home, and thereby re-establish confidence in London.

6103. I think it really comes to this, that you have confidence in the management of the Government of India if the gold is under their control, but you have not the same confidence in the management of the Secretary of State and the Council in London?—That is what it comes to.

6104. Generally speaking, as regards these two reserves I think a considerable part of your criticism is directed to the interchange which has been made between them. You object, for instance, to holding any silver in the gold reserve?—Yes.

6105. You object to holding any gold in the silver reserve?—I do not object to that, no.

6106. I beg your pardon; I misunderstood you, then?—I object to holding silver in the gold reserve, but I do not object to sovereigns being held in the Paper Currency Reserve. I merely drew attention to the fact that (*c*) reserve which is accumulated for the purpose of paying out rupees is held in gold, and a reserve which is accumulated with the special object of paying out gold is held in silver, and I reflect on this management and I call it bad management.

6107. If the two reserves were amalgamated, and one reserve made to serve both purposes, would that meet your criticism on that point?—I do not know how the two reserves could be amalgamated without an entire abandonment of the present machinery. I have already pointed out that if there is plenty of gold in circulation, and plenty of gold in the Paper Currency Reserve, there would be no necessity for a second reserve (*i.e.*, Gold Standard Reserve) at all.

6108. I turn now to Part VI. (page 563). I propose to deal very briefly with the remaining portion of your memorandum, which is in fact largely a summary of the preceding parts, and we have therefore dealt with it already?—Yes.

6109. In Part VI. you quote the opinion of the Indian Currency Committee, in recommending open gold mints and a gold currency and standard for India, that "with the growth of confidence in a stable "exchange, capital will be encouraged to flow freely "into India for the further development of her great "natural resources."* Do I understand you to imply that that hope has not been realised?—It has not been fully realised. I can certainly say from my own personal knowledge that many people at present are afraid to invest in India because they think there is some uncertainty about the stability of the rupee.

6110. That is what I was going to put to you, that it was in fact upon the growth of confidence in a stable exchange that the Currency Committee relied to produce that result?—Yes.

6111. Only in so far as the stable exchange is obtained or supported by the opening of mints to gold and by a gold currency would they affect the proposition at all?—Yes.

6112. As regards the financial organisation of the India Office, am I right in understanding that you suggest a committee of three in place of the present committee?—Yes.

6113. Your principal objection, I understand, to the present committee is, perhaps I may say, the results which have followed from its management?—That is certainly very largely my objection; the results show that the committee is not wisely constituted, I think.

6114. You dislike the fruit, and you judge the tree by the fruit?—Yes.

6115. Your main objection, as I understand, to its composition is that London is too much represented, and India too little represented?—Yes.

6116. Your proposition is that there should be one London banker, one Indian banker, and one Anglo-Indian administrator?—Yes.

6117. You speak of an Anglo-Indian banker. It must be somebody who has retired, I suppose, from Anglo-Indian banking?—I presume so.

6118. He must be somebody, at any rate, who is resident in London?—Yes.

6119. He might be a London representative of one of the Indian banks?—Yes.

6120. You have not, I suppose, and you could not have, any detailed knowledge of the working of the present organisation; you can only judge it, and do only judge it, by its results?—That is all.

6121. There is only one further question I want to ask you. I do not think that we have had your opinion as to whether it is desirable that some State or Central bank should be established in India?—So far as the suggestions which have appeared in the Press may convey a correct idea of the proposed State bank, I do not see that the advantages outweigh the disadvantages.

6122. (*Sir Robert Chalmers.*) As regards the Gold Standard Reserve, do I gather aright that you take some exception to it because it is entirely at the discretion of the Government, without any statutory sanction? Would you like to see a statutory sanction for the utilisation and management and control of the Gold Standard Reserve?—Yes.

6123. You would be guided in that to some extent by the fact that in the case of the Paper Currency Reserve there is always, of course, statutory sanction?—Yes.

6124. And statutory determination of the methods by which it should be conducted?—Yes.

6125. I do not know whether you would be in a position to express any opinion on a proposition which I have heard discussed, that it might be possible to blend those two reserves?—Yes, it might be possible.

6126. You are not in a position to express any thought-out view on that matter?—I have never before heard it suggested that they should be blended.

6127. Coming to the gold reserve in itself, suppose there were no metallic gold in the reserve in your millennial scheme, but a gold currency ample enough to meet your requirements, what do you think would happen if the balance of trade became adverse?—It would be necessary to ship gold from India to Europe.

6128. The gold would be, in the main, in the hands of private individuals?—Yes.

6129. You have great experience of human nature, particularly native human nature, in India. Do you think you would get gold to come out? Do you not think the tendency might be to hoard it instead of helping bullion export?—I do not think there would be the slightest difficulty if gold were circulating freely.

6130. Is that your deliberate opinion?—Yes.

6131. Have you anything to support that in history, so far as there exists history on these matters in India?—There is no history in India that will help us in the matter, because we have not had a gold currency of large magnitude before.

6132. Would it be a fair statement of history, in your opinion, to say that metal or coin has come out from hoards only under stress of famine in past times?—That has happened in the past, certainly. I understand the question to be whether that is the only occasion upon which metal has come out from hoards.

6133. So far as there is any history, is that your opinion?—Yes, that is approximately correct, I should say.

6134. Do you feel really sufficiently safe, in your opinion, to trust to any currency distributed amongst the population as your ultimate reserve to support exchange? Do you feel safe enough to take this gigantic step of having no metallic gold in the reserve, and trust exclusively to a diffused currency of gold coins? Do you feel certain enough in that to take so big a step?—No, I am trusting to the gold in the Paper Currency Reserve largely. There will be 30 millions or 40 millions in the Paper Currency Reserve, and it is from that reserve that the banks would draw the gold for export.

6135. I am relieved to find that I had not gathered your opinion rightly. How has the gold in question got into the Paper Currency Reserve under the circumstances you have in mind?—It usually finds its way by direct importation of gold by the public.

6136. In the crisis that we are contemplating would not there be a tendency to present notes and to require encashment in gold?—Yes.

6137. And that gold so drawn by encashment of notes in your judgment would be used for export?—That is the only purpose for which I can conceive it would be withdrawn from the Paper Currency Reserve.

6138. That is not quite so much in my mind. The point is whether the person who has drawn the gold would, as a matter of fact, export it. Do you feel happy on that?—I feel perfectly happy.

6139. In spite of the fact that one knows that of the previous 4¼ millions withdrawn only about a quarter of a million came to England to support exchange?—That was because Government themselves by their own actions made it more economical for the public to hoard the gold than to give it to the banks to export.

6140. That is your view?—Yes.

6141. Coming to the Paper Currency Reserve, you are prepared to see that utilised for trade advances on gilt-edged securities to Presidency banks?—A small proportion of it, yes.

6142. Part of the fiduciary portion of that Paper Currency Reserve you would see utilised in that form?—Yes.

6143. And you would regard that as adding elasticity to the issue and making it, perhaps you would feel, rather more scientific?—My object would be to make it a little more elastic for meeting seasonal requirements for currency.

6144. As to the amount of that, would you give as much as would be required for trade at the time of seasonal pressure?—I think the first consideration would have to be the security of the paper currency.

* C. 9390, paragraph 70, page 21.

6145. But assuming security, assuming that you have got the best floaters, if I may use the term, as the basis of the advance—assuming that you have got all the security needed—you would be prepared within the fiduciary portion of the Paper Currency Reserve to lend out what is required for seasonal pressure to the market? I am only asking your opinion?—I am not prepared to say "as much as is required," but I should lend out substantial sums with the object of aiding the market.

6146. Do you think much would be required?—Yes.

6147. Are you in a position to suggest from your experience what might be taken as the amount which in a fairly busy year might be required by trade to supplement the existing resources available?—I am not prepared to say off-hand without going into the matter more carefully.

6148. Still, India is not a very big market, and a little shortage makes a very great difference, of course?—Yes.

6149. Would you be disposed to imagine that it would be a large sum which would be necessary to make the difference between stringency and relative ease?—No, I should think comparatively a small sum, possibly a crore or two crores of rupees.

6150. You would be prepared to advance that sort of sum from the Paper Currency Reserve?—Yes, if it could be done without jeopardising the currency.

6151. On perfectly adequate security?—Yes.

6152. And to the extent to which you would do it from the Paper Currency Reserve you would not need to do it from Treasury balances?—Presumably not. It is immaterial, from the point of view of trade, where the money comes from. It is a matter of Government convenience.

6153. There would be at any rate that element of *primâ facie* propriety, that the Paper Currency Reserve would not want its fiduciary portion back at a given moment in the same way that the Government, which, after all, is a trader, requires its cash brought in for the purpose of making its payments?—Yes, quite so.

6154. To that extent there would be an advantage, in your judgment, in the utilisation of the Paper Currency Reserve rather than the Treasury balances?—Yes.

6155. (*Sir Ernest Cable.*) I think you said that when the Gold Standard Reserve had reached a sum of 25 millions you would regard that as a safe figure?—Yes, in the present circumstances.

6156. Then, when that sum had been reached, I presume you would agree that the profits on the silver coinage might then safely be utilized in the general expenditure of the country on productive public works?—Yes.

6157. The whole tendency of your evidence, of course, is in favour of a gold currency?—Yes.

6158. And so far as that would be successful, those profits would be diminished?—Yes.

6159. You would regard that loss of profits with equanimity?—Yes, I think that Government should not look at the profits on the token currency in the light of revenue.

6160. But still, there would be a profit after your 25 millions had been reached?—Yes. I think it would be necessary, though, to regard that profit with very great caution, so as to avoid any temptation on the part of Government to issue excessive token currency merely with the object of making a profit on it. I think that would have to be guarded against very carefully.

6161. Then, that profit being lost, you would suggest, I suppose, that the requirements of the country should be met by raising more loans?—The Government requirements, yes.

6162. I think you said the other day that a very large amount could be raised by 3½ per cent. loans on the present terms?—I think some more could be raised. I do not know that I said "very large," but I think more money could be raised.

6163. I think you will admit that India is paying rather less than the rest of the world for its money, is it not?—Yes, that is the source of the difficulty. I think if Government were to pay a trifle more for their loans, just as other Governments have been forced to do, there would be plenty of capital forthcoming.

6164. If they revised the terms of the loans and brought them up to date, so to speak, in the matter of terms and conditions, we should not be in constant need of money for developing the country?—No, I think there would be practically unlimited money forthcoming.

6165. (*Sir Robert Chalmers.*) But, of course, everything turns on price?—Yes.

6166. If you offered 8 per cent. you could get any amount of money?—Yes. I think a great deal of the difficulty which the Government of India at present have in raising their funds arises from the fact that they are not paying perhaps quite enough in comparison with what other countries have been forced to pay for new capital issues.

6167. Do you make that remark as a stricture on the Government of India?—No.

6168. On the contrary, they have been husbanding their credit as much as they can?—Yes.

6169. (*Sir Ernest Cable.*) Do you not think they have done the country harm by delaying development owing to the too conservative terms upon which they are trying to raise money?—I do not think I would be prepared to go as far as to say that harm had been done.

6170. (*Mr. Keynes.*) In paragraph 6 of Part IV. of your memorandum (page 560) you say: "No other "nation in the world, that I am aware of, holds its "gold reserves in securities, silver, and short loans to "private borrowers outside its own country." When you say "gold reserves" you do not mean reserves of gold coin; you mean sterling reserves?—No, I mean reserves of gold coin.

6171. Would you maintain that India holds her reserve of gold coin in silver?—She holds a substantial proportion of the Gold Standard Reserve, which was created with the special object of redeeming the gold currency, in silver.

6172. I am putting it to you, that if by "gold" you mean gold coin, then, of course, no nation can possibly hold its gold coin in silver?—No.

6173. If you mean by "gold" sterling resources ——?—No, I do not mean sterling resources.

6174. Then are not there other countries which follow the same practice as India?—No, I mean gold reserve. I think I stated "gold reserve," by which I mean a reserve of gold, and I argue that the Gold Standard Reserve was intended, and was originally meant, to be a reserve of gold. That is what it was intended to be—a reserve of gold—and, in so far as Government have departed from the recommendations of the Fowler Committee they are not holding reserves of gold, but they are holding silver, securities and loans, which I think is very bad.

6175. You are aware that there are other nations which hold their sterling reserves in the forms you describe?—Yes.

6176. So that the reference to other nations in this connection is epigrammatic rather than argumentative?—I think the statement of fact as I have made it is quite accurate; I believe so.

6177. I do not think anyone could deny it as a statement of fact if by "gold reserve" you mean gold coin reserve; and I will leave it at that. Would you maintain that the purposes for which India holds sterling reserves abroad is materially different from the purposes for which other countries hold sterling reserves abroad?—I believe it is materially the same; the reason is materially the same.

6178. So that you will agree with me that the practice of India in this matter is the same, whether right or wrong, as certain other important countries?—Yes, it is the same in some respects.

6179. I should like to ask you one or two questions on this matter of holding gold in India or London. In reply to the Chairman this morning you gave it as your main reason for wishing the gold to be held in India, as I understood, that if the gold was held in

London it probably would not be gold?—That is part of the reason.

6180. If it were gold you would not have so much objection?—Not so much, but I should still feel nervous lest the gold were appropriated in a crisis for London's needs rather than India's needs.

6181. There are two points: There is the form in which your sterling resources are to be held, whether securities or gold; and there is the second question: When it has been determined how much gold is to be held, where that gold is to be kept?—Yes.

6182. Putting aside the first point, after it has been settled how much gold is to be held, do you think there is then much advantage in holding the gold in India rather than in London?—Yes; so long as the gold reserves in London stand at their present figure, as a matter of caution I should certainly hold India's gold reserves in India.

6183. And your only reason for that is that you think the Secretary of State might unearmark gold when strictly from India's point of view it was not necessary?—Yes.

6184. I want to put to you in regard to that this question: In difficult times in London is not India quite exceptionally at the mercy of a high London bank rate? Supposing that the London money market was *in extremis*, and wanting gold from all possible sources, and putting up its bank rate, and taking other measures with that same end, could not India be forced to repay sums which she had borrowed at short notice, and so make her gold available to the London money market?—The sums which India borrows repayable at short notice are very small relatively. It is generally the other way about; recently, it has certainly been London that owes India money borrowed and repayable at short notice.

6185. You are aware, for example, that the banks raise very large sums in London at short notice?—Yes.

6186. And operate in India?—Yes.

6187. There are a great number of business houses with connections both in this country and in India; and with the London bank rate up to 7 or 8 per cent. they would all wish to get as much money home as they could?—It depends on what the house was, and the nature of the business. It is not because there is such a high bank rate in London that therefore people necessarily remit money from India to London.

6188. But there would be the general tendency for at any rate some persons to wish to hold a larger proportion of their funds in London than usual, and a less proportion in India?—Yes, there would be a tendency.

6189. And, owing to the close relations between India and London, that would be so to a greater extent, perhaps, in the case of India than in the case of any other country?—Possibly.

6190. I suggest, therefore, that in a case of extreme stringency, such as you are considering, it is quite conceivable that it would be necessary for the Secretary of State to unearmark gold in the interests of India. If London really wants India's gold she can get it by perfectly legitimate means?—I think she can get some of the gold, yes.

6191. I will even go so far as to say this, that the very reason why India has to keep a gold reserve is because she is at the mercy of London when London is in difficulties of this kind; or that is one of the reasons?—I could not acquiesce in that view. I think that India is in a very powerful position indeed.

6192. I mean that a country which is a borrower rather than a lender, and can be compelled to pay money, has to keep larger reserves than a country which is a lender rather than a borrower?—Yes, but I do not think India borrows short period loans so largely as to make that a danger to India.

6193. The point I am trying to bring forward is, of course, independent of the balance of trade in commodities?—Yes.

6194. I am thinking not so much of the case where India is in difficulties because of the falling off of her exports, as of the case in which it is to the advantage of most private persons to remit funds back from India to London so far as they possibly can; and I am arguing that the funds which are available to private persons in such circumstances are at any rate as large or larger, as between India and London than as between almost any other pair of countries?—I do not know.

6195. We know that even in the case of South American countries the power of a high bank rate in making people remit back is very strong, and I suggest to you that in the case of India it would really be stronger?—I should not like to say. I can quite conceive that, in such an emergency, it might be necessary to raise the bank rate in India to prevent money going back, and I can quite conceive that India would most successfully carry out that operation.

6196. But why should India want to?—Because India has a large trade of her own to carry on which needs financing.

6197. (*Sir Robert Chalmers.*) Where is the ultimate settlement of the financing of India's trade?—Probably in London.

6198. (*Mr. Keynes.*) I do not want to press this point any further because I think I have really got your opinion, but I should like your answer to this final question: You do not agree with me, I think, in holding that one of the reasons why India has to keep a large reserve is because of her close connection with London and because of her being borrower rather than lender in the international short loan market?—I do not think that is the principal reason.

6199. And it is a difference of opinion on that point which leads up to the other difference of opinion as to the likelihood of the Secretary of State being even tempted to unearmark gold in a crisis contrary to India's interest?—I have never heard it suggested or put forward as an argument that the Gold Standard Reserve has been created for the particular purposes which you suggest. The only object for which I know that the Gold Standard Reserve was created was to provide for a reversal in the balance of the trade necessitating gold exports from India — monetary exports from India.

6200. But there is not the slightest difference between the need for remittance caused by having to repay loans which are due and that caused by having to pay for new purchases, is there?—No.

6201. Your last point is not in the least relevant to the argument, is it?—It is relevant in this sense, that I have never heard it suggested that it was necessary to create a Gold Standard Reserve for other purposes than the reversal in the balance of trade in commodities; I have never heard it so argued. The ultimate effect, of course, is the same, however the reversal of trade comes about, but the Gold Standard Reserve has been created, so far as my knowledge goes, with the special object of providing gold for meeting a reversal in the trade balance and for no other reason.

6202. You mean simply that this point which I am suggesting, namely, that the Gold Standard Reserve also be used in cases where India is called on to repay, is a new one to you?—It may be so, but I do not regard it as an important point, because I do not think the amount which would have to be repaid in such circumstances as you suggest would be very large.

6203. Your previous answer merely meant that you had not heard people argue on the same lines as I was arguing now. You did not mean anything else?—Yes.

6204. In answer to the Chairman, you agreed with him, I think, that it would be a little unsafe at a crisis to rely wholly on gold in circulation, even if it was in circulation to a large extent?—Yes.

6205. And that you were relying on the gold in the Paper Currency Reserve?—Yes; that was in reply to a question by Sir Robert Chalmers.

6206. The amount of gold in the Paper Currency Reserve depends upon the circulation of notes being increased?—Yes, increased gold depends largely on an increased use of the paper currency.

6207. And upon the circulation of rupees not being diminished?—Yes, and upon the note circulation not being diminished.

6208. So that any measure which sets up a rival to the paper currency and to rupees is likely to have some tendency to diminish the amount of gold held in the Paper Currency Reserve?—Yes, some tendency.

6209. If, therefore, you are relying mainly on gold in the Paper Currency Reserve, you would wish rather for a continuance and extension of the present arrangements rather than for some new one?—Not necessarily.

6210. In so far as you are depending on gold in the Paper Currency Reserve, you would wish for what I have suggested?—No, I do not follow that.

6211. You agree with me that if notes are being used more, and if rupees are not being used less, then there is the more gold in the Paper Currency Reserve than would otherwise be the case?—Yes.

6212. Therefore, if you are relying mainly on gold in the Paper Currency Reserve, you must wish for an increase of notes which is accompanied by no great diminution in the use of rupees?—Yes.

6213. And the contrary policy would lead to there being less gold in the Paper Currency Reserve?—Yes.

6214. And therefore, in so far as you are relying upon gold in the Paper Currency Reserve, to more weakness rather than to more strength in a crisis?—I do not follow that last question.

6215. In so far as you are relying on gold in the Paper Currency Reserve, an alteration of policy would lead to more weakness rather than to more strength in a crisis?—I am afraid I do not follow.

6216. (*Chairman.*) Would it help if it were put to the witness the other way? He would see better what you are meaning. (*To the witness.*) Suppose you diminished the number of notes in circulation and the number of rupees in circulation by increasing the amount of gold in circulation, you have *pro tanto* diminished the amount of gold in the Paper Currency Reserve; is not that so?—In the reserve, yes, that is right.

6217. But the presence of gold in the Paper Currency Reserve in large quantities is essential to the success of your policy, is it not?—Yes.

6218. Therefore anything which diminishes the amount of notes and rupees in circulation jeopardises the success of your policy?—Yes, I follow that line of argument.

6219. That is only beginning at the other end?—I understand this line of questioning now is: If you had no Paper Currency Reserve your scheme would be perhaps considerably jeopardised. That is the direction in which the examination leads. Do I follow that correctly? I understand it to be that if you did away with the Paper Currency Reserve you would have no gold in the Paper Currency Reserve, and therefore what would you depend upon for export.

6220. That is the extreme case?—That is the extreme, yes.

6221. And that in proportion as you diminish the note and rupee circulation you diminish gold in the Paper Currency Reserve?—Yes, I have followed that correctly, I think.

6222. (*Mr. Keynes.*) There is also the further point which I want to imply, namely, that if rupees are driven out of circulation the only home they would have would be in the Paper Currency Reserve, and that they must displace gold there; there is that point also?—It is so. It is a theoretical possibility. It has no practical probability about it, I think.

6223. In paragraph 1 of Part VI. (pp. 563–4) you say that there has been delay in the growth of confidence resulting in cheap capital being withheld from India which would otherwise have flowed there?—Yes.

6224. What evidence have you of that?—Evidence of my own practical experience as a financier and banker.

6225. You could not make it in the least specific?—I could not write down for you individual instances of people whose nervousness had prevented their sending their money out to India, and I should not care to do so if I could.

6226. But you have in your own experience met persons who were prevented from investing in India because of their lack of confidence in the stability of the rupee?—Yes.

6227. There is no instance that you care to specify about that?—No, I can give no names.

6228. I have only one final question to ask. We are aware, of course, that you have written a great deal in the press and elsewhere in regard to the questions which we are investigating?—Yes.

6229. May we understand that in the memorandum which you have submitted (*see* Appendix XXI., page 550), and in your evidence of last week and this morning, you have brought to our notice all those criticisms and considerations which you think important and deserving our attention?—Yes, I think so in relation to the matters referred to this Commission for consideration, but not in connection with any other matters.

6230. (*Sir Shapurji Broacha.*) Your great objection to keeping gold here is that the temptation is too great in time of crisis?—Yes.

6231. If the Secretary of State at a certain juncture wishes gold to come out from India to here, can the Government of India refuse the order?—I should think not.

6232. Then where is the great safety of keeping it in India? If England requires it she will order it?—My line of argument was this, that it is recognised on all hands that there is not sufficient gold in London at the present moment proportionate with the banking liabilities of the London banks, and consequently it is common knowledge that the London banks are at the present moment putting their heads together to devise means by which they can persuade each other to hold larger gold reserves. In those circumstances I think it would be safe for India in the meantime to hold its own gold reserves in India. That is my line of argument.

6233. Suppose it is called up?—If it is called up by the public it can be remitted.

6234. Then there is not such great safety as you think by keeping it in India; it is safer here. Do you not think so?—No, I do not think so. At the present moment there are over 16 millions invested in London on behalf of India in the securities in the Gold Standard Reserve, and I do not think that six millions of those 16 millions could be realised to-morrow if the cash were urgently wanted in London.

6235. You say all fiduciary securities should be invested in rupee securities and not in sterling?—As far as possible.

6236. There is a danger of not being able to sell sterling securities; is not that so?—Except at a very heavy loss.

6237. Would not that happen in India supposing there were a rebellion? You would have to sell at half the price where you could sell at all. Is it not better to put your eggs into two baskets instead of one?—I regard the policy which I am advocating as precisely what you are suggesting, namely, putting my eggs into two baskets instead of one. That is my policy. If the money is in London, I regard the eggs as being in one basket; but if the money is half in London and half in India, I regard the eggs as being in two baskets.

6238. I am talking of fiduciary securities. You do not want two millions to be invested in London securities, but you would have 12 crores in Indian securities?—Yes.

6239. In talking of the two baskets, I am speaking of those two securities?—No, I do not think it is desirable to invest a reserve against the Indian paper currency outside India; I do not think it necessary.

6240. Would it not be safer to have half in English securities and half in Indian securities?—I do not think so; I do not think that that is necessary as a matter of practical business in connection with the Paper Currency Reserve.

6241. When there is a raid in time of crisis in India, would it not be better that some surplus should be here which you could sell?—I do not know what the use of a surplus in London would be in such an emergency. I do not know how it could be brought immediately to the assistance of the Government of India.

6242. You say, of course, that you approve of the present currency arrangement—the notes; you think that it is well managed by the Government?—The paper currency, yes.

6243. And people think paper issued by Government safer than paper issued by a bank?—I think they do, undoubtedly.

6244. It will take a long time to accustom them to bank paper?—Yes.

6245. The fiduciary surplus in the paper currency is about 20 per cent. at present; it is 14 crores against 70 crores, which is 20 per cent.?—Yes, roughly.

6246. In England it is about 33 per cent.?—Yes.

6247. When the Government are not able to afford any assistance to the trade, would you allow the Currency Department to lend between 20 and 33 per cent. of the currency balances; would it be unsafe?—No, I do not think it would be unsafe.

6248. (*Sir Robert Chalmers.*) Your opinion would turn to some extent on the amount?—Yes, the amount and the conditions of the moment. It would be very difficult to lay down any hard and fast rule which would be applicable in any month and in any year, no matter what the political or other conditions might be.

6249. (*Sir Shapurji Broacha.*) You fix the liquid gold reserve at 25 millions?—In the Gold Standard Reserve, and under present conditions, yes.

6250. Would it not be better if it were all put into gold?—If there is a large quantity of gold in the Paper Currency Reserve, and if there is gold freely in circulation, I do not think it would be ever necessary to hold more than 25 millions in the Gold Standard Reserve.

6251. Do you know other countries are scrambling for gold and losing interest?—They always hold very large gold reserves. Every other country holds larger gold reserves than we do, in spite of the loss of interest.

6252. Why should not India do that?—I think India should hold a larger reserve of gold. That is entirely my line of argument.

6253. You said something about the organisation of the India Office. Would you prefer that every Finance Minister retiring should be on the Finance Committee until another Finance Minister retired, because then, of course, they will be fresh anyhow every five years?—There is much to be said for that.

6254. For instance, a Finance Minister is retiring now. If he serves for five years or four years until the other retires, we should always get sufficient knowledge from India?—There is something to be said for that.

6255. An Anglo-Indian retired bank manager would not be of much use unless he had only retired for two or three years, would he?—Possibly not.

6256. Because the man who knows and is in intimate touch with India is a working manager?—Yes. It is possible that an appointment to the Secretary of State's Council might expedite his retirement.

6257. Who ships gold in a crisis for the maintenance of exchange? Is it the people?—The banks, probably, and large mercantile firms.

6258. According to you, they will have to go to the Currency Department?—Probably.

6259. They will not get it from the people?—Partly from the people.

6260. Do you think as long as they have rupees and notes enough for exchange they will ever part with their gold?—I think so.

6261. Have you any reason to think so?—If gold is circulating freely, I have no reason to suppose that there will be any reluctance on the part of the people to pay gold.

6262. You think so?—I think so, if gold is circulating freely.

6263. Do you think I would give my gold in a time of crisis?—I do not know.

6264. I can tell you one instance: In the acute crisis of the Balkans I am given to understand that a man just wrote a cheque for 100,000*l.* on the Bank of England and took it out in actual gold?—Yes.

6265. Do you think that is less likely in India, where they know nothing but metal?—I do not think myself it would be so. If gold is circulating freely, in the event of a reversal of the balance of trade, I do not think that the great mass of the people, who know nothing about the balance of trade, would create any difficulty in the way of passing gold from hand to hand any more than silver.

6266. Again, if you are able to borrow largely in India for public works, part of that will be sent here again and more gold will be required, even in that case, in England than in India?—That will be adjusted in the balance of trade.

6267. But how is the Secretary of State to take the gold out? The Government of India have to remit to England?—Not necessarily gold.

6268. The Secretary of State must sell drafts?—Not necessarily in gold. Remittances may come to England in the form of surplus produce.

6269. (*Sir James Begbie.*) You remarked with regard to the silver branch of the Gold Standard Reserve that you think it should be transferred to the Paper Currency Reserve?—Yes.

6270. When would you do that; would you do that at once?—Yes.

6271. These are rupees which have been coined outside the public demand for rupees?—Yes.

6272. I understood you to say that you would only issue rupees at a certain rate of exchange?—Yes.

6273. You would not apply that principle to this silver branch?—I would apply it with regard to the rate at which the transfer was made, yes; in adjusting the book entry, I should make the transfer at the import specie point.

6274. Do you think it is quite legitimate to add rupees to the currency in this way and to take gold in exchange for them?—Yes, I think it is quite legitimate in the present case of the Paper Currency Reserve and the Gold Standard Reserve.

6275. It is an addition to the silver currency which is not demanded by the public?—Yes, I do not think that the present four millions of silver in the Gold Standard Reserve has ever been demanded by the public.

6276. But you see no objection to putting that silver into the Paper Currency Reserve and taking gold out in exchange?—No, I see no objection in this particular case. I think it is desirable to do that to remove the present absurdity of holding silver in the Gold Standard Reserve.

6277. With regard to your proposal about the Gold Standard Reserve, you suggest that seven millions should be held in securities and the balance in gold?—Yes.

6278. In the event of the reserve being used, I understand you would draw upon the invested reserve first of all?—That would depend upon the conditions of the moment. If selling the securities in the reserve involved very heavy loss, then I should probably suggest shipping gold from India. If the securities could be sold at a profit I should sell them first, certainly.

6279. There is a great advantage in shipping gold, is there not, in place of the present procedure of selling bills against the Gold Standard Reserve in London? If gold is exported from India to support exchange, the first effect is to reduce the Indian currency?—Yes.

6280. The effect on the other side, supposing that the gold is shipped to London, is to increase the currency in London?—Yes; that is a very desirable and normal movement, in my opinion.

6281. And that effect is lost if you sell bills instead of shipping the gold?—Yes, exactly.

6282. With regard to the metal coming out of hoards, I am not quite sure that I understood what you said to-day. Do you think that metal only comes out of hoards in famine times—I mean metallic gold?—I find it very difficult to say under what circumstances metal comes out of hoards, because I think there is a great deal of misunderstanding with regard to hoards. I regard a hoard as merely in many instances a merchant's floating cash which he keeps in his house. Under what circumstances he brings that cash out it is very difficult to say. Of course, in times of famine, cash is released largely. It used to be silver ornaments before the closing of the mints, but now it would be cash, no doubt.

6283. You remember the circumstances of 1894, when exchange fell to such an extent?—Yes.

6284. At that time very large quantities of gold came out of hoards?—Yes, they did, tempted by the low rate of exchange.

6285. And the high rate of gold?—And the high rate of the sovereign in India. I remember that very large quantities of sovereigns came down from Persia at that time, and they were purchased by myself. They were William IV. sovereigns in perfect condition.

6286. With regard to the loans from the Paper Currency Reserve, judging from past experience, comparatively small amounts would ease the market, you think?—I think so, yes.

6287. But if the effect was to ease the market, that is to say, to lower the rate of discount, the demand for those loans might increase?—Yes, it probably would.

6288. (*Chairman.*) I want to ask one or two questions. I think we have it quite clear that your great objection to keeping the Gold Reserve in London is the fact that the English gold reserves are insufficient, and therefore you think that the Indian Gold Reserve would be in danger of being used for other than its proper Indian purposes?—In the event of a grave national crisis, yes; not in any other circumstances.

6289. You criticise the English position because in your opinion we have too little gold in reserve?—I think so; I think the reserves of gold in England are dangerously small.

6290. They are less in proportion than those of any other great Power?—Yes; I do not think we should necessarily hold the same proportion as any other great Power, because I think that the smallness of our gold reserves is in a measure a barometer of our civilisation, but I do think that the reserves of gold in London at present have been cut a little too fine.

6291. On the other hand, we have, I suppose, a larger gold currency in actual circulation than any other nation?—Yes, I should think so.

6292. From this point of view is not the salient difference between our system, and, say, that of France, that they have their gold in reserve and tokens in circulation, whilst we, to a much larger extent, have our gold in circulation instead of in reserve?—That may be so to some extent, yes.

6293. So far as that is true, does not the present Indian system approximate to that of France and differentiate itself from that of England?—Yes, to some extent.

6294. The effect of the present system in India being to put a much larger proportion of gold into the reserve and a less proportion into the currency?—Yes, but in the case of India it is very much more dangerous, because I think India is not in a position to maintain the currency in the same way that France is. I think it is attended with very much greater risks in the case of India than it is in the case of France.

6295. Then am I right in thinking that if your policy were carried out you would reverse the position in India; you would draw the gold out of the reserves and put it into circulation?—No, not out of the reserves. Assuming a large gold currency in India, there is only one reserve in which gold would or need be held, in my opinion, and that is the Paper Currency Reserve. Apart from that, for the strengthening of the credit and reputation of India I should like to see as much gold in circulation as possible, but not at the expense of the Indian reserves.

6296. We have already agreed that, in so far as gold in circulation takes the place of either notes or rupees, it must be at the expense of the Paper Currency Reserve?—Yes, in so far as it takes the place of that currency.

6297. Would not the net result of that policy be to reproduce in India the position which you criticise in London, namely, to produce a condition of things in which there would be comparatively little gold in reserve, though there would be great quantities in circulation?—Not necessarily, I think, because gold in free circulation need not of necessity be accompanied by small gold reserves. In the case of London the small gold reserves arise from no other reason than the disinclination of the bankers to pay the cost of keeping higher ones; that is all.

6298. Is it your view that Indian bankers would be wiser or more patriotic, and that they would make good the falling-off in the Paper Currency Reserve and keep as well any additional reserve that was needed?—I do not see that the Paper Currency Reserve will, or need, diminish with the increased use of gold as currency in India. I think with the development of the country, which is going on at a very rapid pace, there will be an increasing use both of paper currency and of gold in India.

6299. (*Mr. Keynes.*) May I ask a question? You are clear that the gold which you wish to be in circulation is not to be in place of notes, and is not to be in place of rupees?—Largely, yes. In the course of the development of the country the gold will come in. I do not think that the new gold will come necessarily with such rapidity as to displace the present token currency altogether. It will possibly at first displace it to a small extent, but what I am anxious is that in the growth of the currency which is now taking place the additions should not be made in depreciated silver tokens, but rather in full value gold coins.

6300. (*Chairman.*) So that as that growth proceeded, the addition to India's gold would remain in the form of currency, but not in the form of reserve?—Both, I think.

6301. How could it be both?—Because the country is growing the whole time, and needing more currency the whole time, and also it is advancing in civilisation, so that there would be, with an increasing use of gold as currency, a constantly increasing use of notes against which gold or securities would be held in the Paper Currency Department.

6302. You look forward to such a growth that there would be plenty of room for the addition, I think you said, of something like 70 millions of gold to the circulation?—Yes.

6303. And at the same time for a considerable addition of notes?—Yes.

6304. Without any contraction of rupees?—Without any very serious contraction of the rupee circulation other than arises from the normal and regular export of rupees from India to East Africa, &c. I think I estimated that it would take 7 to 10 years, perhaps, to bring about this state of affairs.

6305. I think that is a sanguine estimate. I have asked you all the questions which I want to put, but before you leave the chair I should like to give you an opportunity of adding anything. If there is anything you would like to say to which our previous questions have not given occasion, that is, of course, anything within the terms of our reference, please say it?—There are one or two matters in which I should like to supplement the answers I have already given.

6306. Please do?—Firstly with regard to the questions put to me by Sir Shapurji Broacha on the subject of my opinions now being different from—in fact, diametrically opposite to—what they were 15 or 20 years ago. Several critics have drawn my attention to this fact, and I should like to explain to the Commission the reason why I advocate a freer use of gold now rather than a freer use of silver. Fifteen or 20 years ago prices all over the world were diminishing; prices were going down, and money was appreciating in value. The construction which I put upon that was that there was not sufficient metallic money in the world to go round, and therefore that it was desirable to add to the metallic money available. Therefore, in the case of India I advocated the further coinage and use of silver money. But since then the position has been entirely reversed, and the output of gold has now become so enormous that to that gigantic output I attribute the fact that prices all over the world are rapidly rising, which I regard as an indication that the metallic basis, gold, is more than adequate for current requirements. In those circumstances, I think to add more silver to an already abundant supply of gold money is a very grave blunder, and that it is calculated to produce very serious economic crises all over the world owing to well-to-do people being tempted to over-trading and over-speculation and the poor

population being pushed on to the verge of starvation. For these reasons I strongly protest against the coinage of further silver money where it can be avoided, and for those reasons I advocate the further use of gold. That is the explanation of why my attitude now is different from what it was 20 years ago. Then with regard to hoarding in India, upon which two or three questions have been put to me, I should like to correct, if I may, misapprehensions which exist with regard to hoarding in India In the first place, a very large proportion of the population—over 90 per cent.—are illiterate; and this Commission, I think, will easily see the difficulties of advocating the use of cheques and banking and paper currency amongst a population, 95 per cent. of whom are unable to read or write. There are difficulties in the way of a very rapid development of banking and the use of paper money. Then, again, a very large proportion of the population live 20, 30, 40, or 50 miles away from a railway, and consequently it is extremely difficult for such people to put their money in banks and draw cheques on it. They must take their money away, and they must keep it in their houses, and for that reason they must keep a good deal of money on their persons or possibly buried in the ground; but I do not regard this as a sign of inherent viciousness on the part of the peoples of India, nor do I think that the peoples of India hoard gold so that it disappears and nobody will ever see it again. I am perfectly certain that, as education advances and as the railways are constructed, more and more of this money will come into circulation. The peoples of India are certainly as far-seeing and shrewd in commercial matters as the peoples of any other country in the world, and I am quite certain that this money will come into use and will in time be banked and will be employed exactly as we use it. I do not see, therefore, any fear whatever of gold going into India in enormous volumes and never being seen again. I think that is a bogey, which only scares those who have no knowledge of present-day Indian conditions.

6307. Your view is that at the present time the natives hoard because they really have no alternative?—From force of circumstances largely; partly, of course, from old associations and the feeling of insecurity, which has not altogether disappeared, but also partly because of the force of circumstances—partly because there is no other way in which they can handle their money. That is a point which I want to make with regard to hoarding. Then there is one other point I should like to bring to the notice of the Commission, and that is this: Whilst advocating the increased use of gold in the general interests, because there is so much gold about that prices are rising very largely—that is the general argument—quite apart from that I maintain that everywhere in the world it is recognised that people who use gold money for everyday purposes are at a more advanced stage of material development than people who are using silver, and I am quite confident that if India were using a gold currency freely she would stand very much higher in the estimation of the world generally than she does at present.

6308. You take a gold currency as marking a superior stage in civilisation to a silver currency?—Yes, but not so advanced, of course, as paper. It must not be supposed for a moment that I am not understanding or seeing the use of paper currency, but in the case of India the great majority of the people, as I say, cannot read or write, and circumstances force them to hoard. Another consideration is that the conditions of climate make the use of paper currency exceedingly unpleasant sometimes, as a great many people must know who have to handle extremely odoriferous 10-rupee and 5-rupee notes. With all those circumstances taken into consideration, I think it is advisable, in the interests of India, that she should use gold freely before advancing to paper in the same way as England has done. I am quite sure that in due course India will use notes and cheques, and the statistics show that banking is increasing at an enormous pace, and that the deposits by the public in indigenous banks are increasing at a phenomenal rate; so that everything is moving in the right direction, and my advocacy of an advance to a gold metallic currency is made largely because I think it will add greatly to India's credit and reputation if she uses gold the same as English people all over the world use gold. I feel that in this matter it is up to us to give to India the very best metallic currency that we can before we commence to talk about paper; and because I think we ought to give India the very best metallic currency we can, and because the world conditions permit of the use of gold without doing anybody else any injury. I have for two or three years past urged the opening of the Indian Mints to the free coinage of gold, and the use of sovereigns as daily currency in India.

6309. I will just ask one question on that: Would you agree that the tendency of recent years among the great financial powers has been to make gold less and less the medium of internal exchange and to reserve it merely for the purpose of balancing external exchange?—Yes, undoubtedly; and at a later stage, when India is using gold very freely as currency throughout the country, there will be plenty of time, I argue, for India to think about reducing her use of gold; but in the case of India, which is in many respects a backward country, it is impossible and undesirable to jump over the intermediate stage and to try to stimulate the universal use of paper before that widespread confidence has been established which you get from the free use of gold money.

6310. She must not profit by our experience, but she must really learn for herself?—You must go step by step, because the people cannot read and write, and in many respects are very ill-informed.

6311. (*Sir Shapurji Broacha.*) May I ask one question of fact? You know that gold production had gone down in 1887 to about 19 millions, but in 1898 it had gone up 300 per cent. again when you wrote that statement upon which I questioned you, and it was going up higher?—The output of gold was going up, yes, but up to 1898 the general level of prices had not been sufficiently affected to make it certain that it was desirable to alter our policy. Although the output of gold was increasing, the general level of prices throughout the world had not yet swung round, so that I could not be certain in 1898 that the output of gold was really so great as to make it desirable for India to use it then as currency.

The witness withdrew.

Mr. WILLIAM BERNARD HUNTER called and examined.

6312. (*Chairman.*) Will you state first of all what your experience has been?—I have been for 25 years in the service of the Bank of Madras, the last seven years of which I have been secretary and treasurer.

6313. You are resident in India?—I am resident in India, yes.

6314. You have submitted a memorandum of the evidence which you offer, and I propose to print that as an Appendix to our Report (Appendix XXIV., page 591). What, in your opinion, is the principal object of the sales of Council drafts? Is it to effect remittances to London on Government account?—Originally the sole purpose was for the transfer of funds on Government account, but since the closing of the mints I think that that is of secondary importance now, especially with regard to the conditions of the London money market. Otherwise than by very large shipments of gold, at a time which would probably be inconvenient, there is no other means of paying for the balance of trade.

6315. So that, in your opinion, at the present time the primary use of the sale of Council bills is to settle the balance of trade?—I think so, yes.

6316. Will you please explain in rather greater detail the method which you suggest might be adopted

for providing the Secretary of State with funds in London as an alternative to the system of Council drafts, so far as these latter are regarded as merely a means of effecting remittances home?—The Government of India would be able to buy bills on London in India quite easily, primarily from the exchange banks. They could do so daily through brokers at various centres, Calcutta, Bombay, Madras, Karachi, Rangoon, and even in Northern India; and to meet the requirements of trade in that way there would be no difficulty in purchasing sufficient bills, primarily from the Exchange banks, and, if they were not sellers, then from the open market.

6317. Do you see any advantage in following that course rather than the present one?—No, there is no real advantage in that.

6318. It being, in your opinion, the fact now that the main object of these sales, or the most important object which they serve, is to settle the balance of trade, what would you say to the criticism that that work is not really the business of a Government Department?—Since the closing of the mints, the Government of India have practically undertaken to keep exchange steady, and therefore it could not be done by anybody else. It must be kept on by the Government.

6319. Do you think that nobody but the Government could undertake that business?—I think not. I think the credit required to maintain exchange takes it beyond any bank.

6320. I think you are in favour of the establishment of a central bank?—I am.

6321. But even if such a bank were established, you do not think that this part of the business could be advantageously transferred to it?—It would naturally be transferred to the bank, but the bank would do the operation solely as agent for the Government, and any profit made on the transaction would be a profit belonging to the Government. As Government would be responsible for keeping up exchange, and any loss must fall upon the Government, they naturally would be entitled to any profit. The advantage of transferring it to the central bank would be that the bank would be more in touch with the general market, and would know what the requirements were—when to sell and when to cease to sell.

6322. But if the responsibility remained on the Government would not the Government have to be strongly represented on such a bank?—Naturally the Government would require to be represented.

6323. The advantage therefore would be that in doing the work they would be associated with experts familiar with the conditions of Indian trade?—That is so.

6324. I think it is your opinion that if the sale of Council drafts were abolished, or if it were limited to the actual requirements of the India Office, the result would be a large increase in the amount of gold shipped to India?—Yes, certainly.

6325. What do you think would happen to the gold when it got to India?—A large proportion would immediately go into the currency reserve for notes to be taken out in exchange. Eventually those notes would be again presented at the currency office for silver, probably silver required in the up-country places.

6326. Then the first result would be a considerable accumulation of gold in the currency reserve?—A large accumulation of gold in the currency reserve.

6327. What would the next step be? Would the Government have to ship that gold home to London again?—The Government would eventually require to ship that gold home to meet their expenses, and also, when the silver supply ran short, to purchase further silver.

6328. Would the public have to ship gold home as well as the Government?—I do not think so—not at that stage. The public would only have to ship gold home later on should the exchange go against India.

6329. The net result would be the shipment of a good deal of gold to India, but it would only remain there temporarily, in your opinion, and it would have to be remitted home again?—Yes, it would have to be remitted home again.

6330. That would be a costly operation?—It would be a costly operation.

6331. With no advantage?—With no advantage. In fact, it would be a disadvantage, because it would tend to raise rates in London.

6332. I now turn to the question of the rate at which Council drafts are sold. I am not quite certain what your view is. Do you hold that no sales should take place under 1*s.* 4*d.*?—Yes.

6333. You assume that the gold point is always over 1*s.* 4*d.*?—I assume that the gold point is always over 1*s.* 4*d.*

6334. Suppose the Secretary of State is absolutely in need of funds at home, but could not sell at 1*s.* 4*d.*, would you allow him to sell below?—No, I think he should not sell below 1*s.* 4*d.* He would only be absolutely in need if the whole of the Gold Standard Reserve had disappeared. If it comes to that point, the next step, the final step, must be to borrow in London.

6335. You think that the moment he is unable to obtain the rate of 1*s.* 4*d.* he ought to have recourse to the Gold Standard Reserve?—If he is in absolute need of funds he ought to have recourse to the Gold Standard Reserve or the Currency Reserve, first, if there is gold in the Currency Reserve.

6336. I think for the last few weeks the Secretary of State has actually been selling 20 lakhs a week at a rate below 1*s.* 4*d.* That you would say was wrong?—I would not approve of that.

6337. Unless he needed money immediately?—And even then, with gold in the currency chests in London, there is no necessity to sell below 1*s.* 4*d.* Rupees could be placed in India and gold released here.

6338. What is the object of your proposal that when bills cannot be sold at 1*s.* 4*d.* in London, they should be immediately offered at 1*s.* $3\frac{15}{16}$*d.* in India?—In order to maintain exchange at about 1*s.* 4*d.*, and to maintain confidence.

6339. The Government of India would make a profit on that transaction, would it not?—Having sold at a higher rate previously in London, they would make a profit.

6340. Would the business have any connection with the remittance of funds on Government account to London, or would it be done merely and openly for the convenience of trade?—I am inclined to put it rather that it would be done openly in order to maintain exchange, which the Government have practically undertaken to do. It is not only necessary for them to maintain exchange for their own requirements, but also for the benefit of trade.

6341. So that I take it it comes to this, that you want to see the Government supporting exchange continuously?—Continuously.

6342. And at an absolutely fixed point?—Yes.

6343. And not waiting, as they did in 1907, until the strain really threatens to break down the exchange altogether?—That is my opinion.

6344. Should I summarise your position rightly if I said that this Council draft system has two objects—I do not give them in your order of importance: First, the remittance to London of the funds required by the Secretary of State, and, secondly, the settlement of the balance of India's foreign trade?—Yes, I agree to that.

6345. Further, that as at present managed, the sales of Council drafts do not fulfil their second function, which you regard as the more important, so well as they might do, because there is no settled policy as to the sale of similar drafts in India?—Yes, I agree to that.

6346. And that, consequently, it would be desirable to find some way of distinguishing clearly between the two functions of the sale of Council drafts?—I do not think there would be any object in distinguishing between the two.

6347. Provided the result is obtained?—Provided the result is obtained. It might be a facility if the Secretary of State kept two balances in London, one a working balance and the other an exchange balance, but I do not think it would be necessary, so far as the general public is concerned, that they should know how

much was in the working balance and how much in the exchange balance.

6348. With reference to your statement as to the way in which Council drafts should be met, have you any criticism of recent actions by the Government of India or the India Office in regard to the sources from which the sales have actually been made?—The sales are made always from the Treasury balances so long as sufficient rupees can be scraped together from anywhere. The consequence is that it makes restrictions in the money market in India. Of course, it is not so material at present, because in any case revenue as it is collected in India is locked away out of the hands of banks, and of no use to anyone.

6349. From what source would you meet them if you would not meet them from Treasury balances?—I should meet the sale of Councils first of all for the Secretary of State's immediate requirements from the Treasury balances, and if money was really easy in India I should continue to draw on the Treasury balances. As soon as the rates stiffened up it might be drawn from the silver portion of the Gold Standard Reserve, and that would not necessitate the earmarking of gold in London. As a last resource, I would do it from the Currency Reserve, which would mean the earmarking of gold in London.

6350. You would prefer to see a much freer recourse to the Gold Standard Reserve?—Yes, undoubtedly.

6351. And you have no fear that, using it as freely as you propose, it might be found deficient in time of severe crisis?—I think not.

6352. One of the features which the Indian Government and the Secretary of State have constantly to keep in mind is, of course, the amount of their liabilities in London, and particularly the interest on their debt incurred in London?—Drawing on the Gold Standard Reserve would be providing funds in London for that purpose, and equally on the Currency Reserve. The gold would be in the Currency Reserve and the silver would be released in India, which could be replaced, and the reverse operation put into force as revenue came in.

6353. I suppose you would hold that the less the Government of India has to borrow in London the better?—Within certain limits. I am strongly in favour of borrowing in London for further development of India so long as the London money market will take up the securities without unduly depreciating the price.

6354. Would you or would you not prefer to borrow in India if you could borrow there on equally favourable terms?—If you could borrow in India on equally favourable terms, by all means borrow in India freely.

6355. Would you go a point further and say that it was worth while to pay a little more in India in order to have fewer liabilities in London?—I think not, unless, by floating more loans, you could extract hoards.

6356. Do you think more could have been borrowed in India than has been done in recent times?—Not to any material extent.

6357. You do not think that the issue of loans in India would extract the hoards?—I think not.

6358. There have been some very successful issues in India lately?—Yes.

6359. Do you know whether small men have taken a share in those loans?—They are chiefly confined to large institutions and large people. Last year it was taken up practically by one man.

6360. They do not get passed on to the little man?—Afterwards; there is a fair amount of investment demand throughout the year on the part of small people.

6361. As that habit grows will it not tend to produce a bigger market for the loans?—Undoubtedly. It should be so.

6362. At present you do not think there is any material demand on the part of small people?—Not any material demand. There might be if the negotiability of the notes and the collection of interest were made easier, and there was less trouble in the event of the death of the holder. If troubles of those descriptions could be minimised, Government paper would probably become more popular.

6363. Are those troubles in regard to the registration of stock and transferring stock?—In India the paper is generally transferable by endorsement, unregistered, and then the great difficulty is when these notes come into the Public Debt Office, with regard to the endorsement—illegibility or slight differences in the signatures.

6364. I turn now to the management of the balances. Have you any criticisms to offer as to the size of the balances, either in London or India, of recent years?—The balances have undoubtedly been abnormally large, but I think that is due to unusual circumstances, and I see no reason to complain of the position.

6365. You recognise that they have been abnormally high, but under the circumstances you make no complaint of that?—I make no complaint of that.

6366. Do you criticise the fact that so much of the balances has been brought to London or not?—I see no reason why the balances should not be brought to London as they were. There was plenty of money left in India; we were not restricted in any way by the fact of the large sales of Councils, because there was still plenty of money available to be lent out if it could have been.

6367. You think that some of the money which was in India should have been available for the market?—It should have been available, yes.

6368. Assuming the continuance of the present state of things,—I will come to the question of the Central Bank later—to whom would you recommend that such loans should be made?—My contention is that the Government of India should never withdraw currency from actual circulation; as quickly as it is withdrawn it should be put back again.

6369. Put back into the banks?—Yes, into the banks.

6370. Would you think it right for the Indian Government to require security from the banks?—I do not think it is necessary.

6371. The Indian Government, I think, already keeps considerable balances free with the banks?—They keep certain balances.

6372. You do not propose a mere unlimited addition to their non-interest-bearing balances with the banks, do you?—I should say it would be in the interest of the country at large if their balances were put in freely without interest, in the same way that Government balances in England are placed with the Bank of England.

6373. Without interest and without security?—Without interest and without security. If the banks have to pay high rates of interest to the Government of India it will then be impossible for the banks to finance trade at cheap rates. There would still be the higher rates of interest.

6374. (*Sir Robert Chalmers.*) Is that true universally? The rate at which you can lend depends on the rate that you pay, does it not?—Yes.

6375. Therefore, perhaps you would qualify your previous statement and not make it too universal. There would always be the power of lending at a moderate rate if a moderate rate were charged?—If a moderate rate were charged, yes; to that extent it would be so.

6376. (*Chairman.*) And any addition to the amount of money available for loans would tend to the reduction of the rate?—Yes.

6377. Would you advocate the closing of the reserve treasuries and the transfer of all the balances to the existing Presidency banks?—I think that would be a move in the right direction.

6378. There are many places where there are Treasuries, but where the banks are not at present represented, are not there?—Yes, there are many places where the banks are not represented, but with more money the banks could then open many more branches.

6379. I think we have had it in evidence that the Government have been endeavouring in recent years to get the banks to open at fresh points?—They offered certain conditions; they offered a free balance of three lakhs of rupees for a term of five years for a new branch that was opened, but at the end of that

five years the balance was then reduced to a mere nothing; and with the opening of that branch the bank has to undertake to do a lot of work for Government. It really means that you have to keep up a large staff; they have to keep two Europeans in the branch instead of one, and in other ways it is very expensive, so that the conditions offered are really no inducement excepting for the five years that they are in operation.

6380. So that, in your opinion, the extension, as far as it has taken place, has not been profitable to the banks?—It has not been profitable to the banks.

6381. On the other hand, we have had it in evidence that it has not been profitable to the Government in the sense that the balance which they have had to leave with the banks has been higher than the balance which they need have kept for themselves?—I think, as a matter of fact, so far as the Bank of Madras is concerned, which I represent, we only opened three new branches, and that meant nine lakhs of rupees, which is not a very large sum of money; and, so far as I know, there were not very many branches opened by the other Presidency banks.

6382. I think we have had it shown to us, that owing to the convenience which the Government possesses in the currency chests, they were actually able to work on smaller balances when they had the reserve treasuries open than they had to lodge with the banks in order to induce them to open and take the business over?—Yes.

6383. (*Mr. Gillan.*) That merely means that in the case of these three branches which you opened we could probably have run in place of those three branches three treasuries ourselves with less than a minimum of nine lakhs?—Yes, undoubtedly you probably would have run it on the balances that you now leave with us—about half a lakh at each branch, that is to say, about 3,000*l.* at each branch.

6384. (*Chairman.*) Altogether that does not seem a very hopeful reform, does it? You represent to us that it is unremunerative to the banks?—Yes.

6385. And the Government have represented to us that it locked up more of their money than was otherwise locked up?—Yes, but I think that perhaps indirectly the Government gain by the banks extending business.

6386. (*Mr. Keynes.*) You do not maintain that it is unremunerative to the banks during the five years, do you; it is only after the five years?—It is only after the five years. During the five years that the agreement is in existence it is quite a good remuneration, and a good profit is made.

6387. (*Chairman.*) I had not understood that; I am glad of the correction. How far do the sales of Council drafts act in releasing funds in India? Suppose the India Office sold them in the busy season to such an extent as to use up the extra six crores which the Government collect as a balance against the summer and the autumn, would that meet your difficulty?—It would be an assistance, but the fact remains that the first step in the operation is the contraction of currency by the withdrawal of revenue from the market, and the sale of Council bills only comes into operation when the produce has reached the coast and is being exported. The inland trade is therefore starved; in fact the rates are high and it is difficult to get it financed, and people have to part with their crops at any rates that they can get for them.

6388. You spoke just now of the Indian Government imitating the English Government in keeping its balances with the Bank of England. I think the British Government from almost the commencement of its financial year is a borrower; the bulk of its revenue comes in late in the financial year, and therefore when that comes in the Government uses it to pay off debt incurred in the earlier portion of the year, and does not swell its balances. It does not remain in the Bank of England, though it may pass through the Bank of England. Is the position in India at all similar?—No, the position in India is not. The Government never borrow from banks except in the form of the open loans which they put on the market.

6389. So that the comparison with England is not quite complete. In England the Government is really returning to the money market money which is borrowed from it?—I misunderstood that. The statements of the Bank of England do not show that. They always show a very large sum deposited as public deposits.

6390. Perhaps I ought to say that I am speaking now of the Exchequer balances, not of the gross balances?—Of course the gross balances are what I was talking about. It always shows in the Bank of England statements very large sums due.

6391. If your policy were not adopted, would you advocate the making of loans from Government balances in the busy season to the Presidency banks?—Yes, I think that would be a step in the right direction.

6392. In that case interest would have to be charged?—In that case interest would have to be charged.

6393. Something a little below bank rate I suppose would meet the case?—I should put it at the rate which banks are offering for short term fixed deposits.

6394. Do you think such loans might be made to other banks besides Presidency banks?—I think within reasonable limits.

6395. Not without security, I take it?—To some banks I think decidedly without security.

6396. Would you lend to private firms as well?—I think not.

6397. Do you think that Government ought to lend to any bank either in India or London without security?—Do you mean lend to any bank without restriction?

6398. I mean no matter how secure the bank; I am not reflecting on the bank, I am assuming that they have chosen the soundest bank that they can find. Do you think that even then a Government ought to lend without security to a bank?—I see no great objection within limits.

6399. You think there would be no objection?—I see no real objection within limits.

6400. (*Sir Robert Chalmers.*) There would be no objection on the part of the banks, anyhow?—Certainly there is no objection on the part of the banks.

6401. (*Chairman.*) Do you think that a large sum would be taken by the banks if the Government were willing to lend it, or would a small sum meet all their requirements?—At first I do not think very large sums would be required; probably from three to four crores would see you through the busy season.

6402. (*Sir Robert Chalmers.*) Do you mean for all the banks, taking India as a whole?—Yes, taking India as a whole I think three or four crores would ease the situation very much.

6403. (*Chairman.*) You say that would be sufficient at first?—Yes.

6404. Do you look forward to the demand growing?—I look forward to the demand growing. Probably the banks would then be enabled to carry more Government securities, and so help on the development of the country.

6405. (*Sir Robert Chalmers.*) You think that there would be a growing demand by the banks for assistance from the Government?—I think probably so.

6406. You do not think that that extra demand on the Government would be relieved as time went on by new sources in their own domain coming to the banks?—To a certain extent, but the deposits grow very slowly. We find that as we extend our branches out into the outlying countries the demand is always for loans; the amounts which have come in on deposit are quite infinitesimal.

6407. As I understand it, you told us that there would be a growing dependence on Government?—That as we extended we could utilise more funds.

6408. You have to get those from the Government?—Yes, because Government have withdrawn it from circulation at the busy season. India is so much a seasonal country; for six months in the year money is very tight and for the other six months it is very easy, and the time when money is very tight is the time when Government balances are particularly high.

6409. (*Chairman.*) It is at the moment of the great demands that Government collects the major portion of its revenue?—Yes.

6410. Or at any rate a large portion of its revenue?—Yes, it is just at that time.

6411. You would not suggest that the Government could alter its period of collection?—No, I think that would be impossible. They collect the revenue as the crops come in, and if they did not do it then they would have difficulty in doing it at all.

6412. It is a necessity of the situation that the demand of the Government should synchronise with the demand of the trade?—I think so.

6413. If the market received such assistance as you have suggested through loans from the Government to the banks, and had got into the way of expecting it, what do you think would happen if in some particular year it was inconvenient to the Government, or impossible for the Government, to give it?—In such a year I should imagine that the reason why Government were unable to find the finance would be that the revenue was not coming in, and therefore the money would not have been withdrawn from active circulation and the crops would be short, and a very much less amount of money would be required to finance.

6414. Is there not another possible contingency, that the revenue might be coming in but it might be going out even faster, that is to say, you might have a war, for instance?—There is a possible contingency there.

6415. Would you fear the creation of a crisis by the sudden withholding from trade of the assistance upon which it had come to rely?—It would not be pleasant, but I do not see that there would be any great danger if the banks were given the power of borrowing elsewhere.

6416. Borrowing where?—In London.

6417. As an alternative to loans from the balances it has been suggested to us that loans might be made from the Paper Currency Reserve. Let me just ask one question at this point. Suppose such loans were made from the Paper Currency Reserve, would you regard that as a complete solution of the question, or would you still think it necessary that the large balances in reserve treasuries should be lent out as well?—I would not consider it as a complete solution. I think that undoubtedly the first place the loans should come from are the idle balances lying in the reserve treasuries and that the loans from the currency reserves should be more or less a last resource.

6418. Would it not be the case that the time at which such assistance would be required by trade would be just the moment at which you could most readily afford to withdraw something from the currency reserve?—Yes, I think so.

6419. I will put it in this way to make my meaning clear. That would be the time when the circulation of notes would be tending to rise, not the time when they would be coming back for encashment?—No, I think as a matter of fact during the busy season the demand is largely for specie from the currency, and that the notes in which the reserves at the bank are held are presented at the currency for encashment. It might not show actually in the note circulation returns, because there you have to take into consideration the number of notes which have come back into the treasuries, and are held in the treasuries up country.

6420. (*Sir Robert Chalmers.*) But taking the circulation as a whole, it would be a time when the circulation would be larger?—Probably—the apparent circulation.

6421. But not the real circulation?—I do not think the active circulation would be larger.

6422. (*Chairman.*) Not the active circulation of notes?—No, but I cannot speak authoritatively upon that, because I have never had the figures to show what proportions of the Treasury balances held in those numerous treasuries up country are held in notes and coin.

6423. (*Sir Robert Chalmers.*) If the total circulation with which the Paper Currency Department is primarily concerned were large, then that would allow of the fiduciary portion of the issue being more safely lent out at a time when loans would be very valuable to the trade and when it would be, on this hypothesis, safe to lend it out. Do you agree to that?—In my opinion it is the active circulation which is the important basis.

6424. (*Mr. Keynes.*) Is it not the case that the active circulation is greatest in the busy season?—I do not think so.

6425. I have the figures before me, and in all recent years the maximum circulation has been in January, February and March, and the minimum in June, July and August. For instance, in March 1911–2 the active circulation was 44½ crores, and in June of that same year it was 38½, that is to say the active circulation was 6 crores higher at the end of the busy season than it was in the dull season?—Can you tell me exactly how the active circulation is arrived at?

6426. The active circulation is the gross circulation less the holdings of treasuries and Presidency banks?—Less the holdings of all the treasuries, or only the reserve treasuries?

6427. Of all treasuries, I think.

(*Mr. Gillan.*) Yes. In the last Currency Report it says: "As usual, the aggregate amount of notes in the hands of the public"—that is the active circulation—"was greater during the winter months than at other times of the year."

6428. (*Chairman.*) Taking the figures which have been suggested to you, and assuming the accuracy of them——?—Then I must withdraw my statement.

6429. Then you would agree with the suggestion I put to you?—Yes.

6430. That the time when trade most requires assistance is the time when the currency reserve can best afford to give it?—Yes.

6431. (*Chairman.*) I come now to the question of the Gold Standard and the Paper Currency Reserves. Do you regard the keeping of a Gold Standard Reserve as necessary?—I do not know that it is essential, but it is desirable.

6432. Do you approve of the present distribution of it between India and London?—Yes, certainly.

6433. You raise no objection to keeping a portion of the Gold Standard Reserve in silver in India?—At times it will be necessary if you keep the reserves separate; at such times when India has to sell on London the proceeds of the drafts must go into the Indian silver branch. I do not know that it is necessary always to keep six crores in silver, but it is helpful to the currency reserve, and it enables more gold to be held in the currency reserve, and I see no objection to it.

6434. As far as there is silver in the Gold Standard Reserve, I understand you think the proper place for that silver is India?—Yes.

6435. On the other hand, so far as the Gold Standard Reserve consists of gold or gold securities you think the proper place for it is London?—Undoubtedly.

6436. Will you give me your reason for that?—Because it is only in London where it will be required.

6437. Have you any figure in your mind for the total to which it should be sought to raise the Gold Standard Reserve?—In my opinion the Gold Standard Reserve should be increased continually as long as new rupees are being coined. The difference between the price of the silver and the circulating price should practically be held in trust for the public, and should be invested.

6438. Would you continue to put the whole profits of the silver coinage into the Gold Standard Reserve?—Yes, into the Gold Standard Reserve.

6439. You would continue that practice indefinitely?—Indefinitely.

6440. As regards the form in which the bulk of the Gold Standard Reserve should be kept, would you keep any portion of it in gold?—I do not think that it is necessary to keep actual gold when the gold in the currency reserve is strong.

6441. Provided therefore there was a large amount of gold in the currency reserve, I understand from what you say and from your memorandum (Appendix XXIV., paragraph 11, page 592) that you would invest the whole of the gold reserve in securities?—Yes, that is right.

6442. Not merely in short dated securities?—No, a portion of it should be in short dated securities and temporary loans, but a large portion might safely be permanently invested.

6443. I think in paragraph 12 of Appendix XXIV. (page 592) you suggest that in case of a heavy demand falling on the Gold Currency Reserve there would be no difficulty in realising such securities in London?—I think not, if your reserve of actual gold in the currency reserve was large, and you first released your gold and then immediately afterwards sold or borrowed on the securities.

6444. You would treat the gold in the currency reserve as——?—As the first line of defence.

6445. As the first line of defence for the exchange?—Yes.

6446. And only as you were coming to the end of that would you think it necessary to realise the securities?—No, I should do it practically simultaneously—release, say one million from the gold reserve and simultaneously either sell the securities or temporarily borrow upon them, but the releasing of the gold would prepare the markets.

6447. Suppose at the present moment it was necessary to have recourse to the Gold Standard Reserve, do you think that you could sell 10 millions of securities on the London market?—I think if you first released 15 millions of gold and placed that in the Bank of England you would not have very much difficulty in arranging for that. If they did not actually buy your securities they would temporarily advance against them. At present the proportion is one-and-a-half in gold to one in securities. That seems to me to be a very strong position.

6448. You think the gold released in India from the Paper Currency Reserve——?—It would have to be released in London. It must be released in London. You would immediately stop issuing gold in India at once.

6449. In the case of such a crisis you would refuse to issue gold in India?—I would refuse to issue gold in India, because the gold issued in India immediately goes into the hands of the bullion dealers. They take it up as a speculation; they can get it very much cheaper than they can by importing gold.

6450. Do you think the gold released in India or gold in circulation in India is not available for the support of exchange in a crisis?—I think not. I do not think it would ever be forthcoming in any large quantity.

6451. Then your suggestion that it is safe to keep the London portion of the gold reserve in securities is based upon two assumptions, first that there will be a large quantity of gold in the currency reserve, and secondly, that that will immediately be used in case of need in London?—Yes, in London.

6452. And would be refused to India?—It would be refused in India. It would not be necessary in India if the Government sells sterling bills immediately.

6453. (*Mr. Gillan.*) May I ask at what point you would stop this giving out of gold in India? What I mean is that a crisis generally seems to come on very gradually, and you have, perhaps, very considerable withdrawals of gold going on; presuming they are going on at this present moment, you are weakening your position before the actual crisis comes?—You are weakening your position by issuing the gold. I should stop issuing the gold from the reserve in India immediately the Secretary of State was unable to sell his Council bills at 1*s.* 4*d.* and simultaneously offer to draw on London.

6454. (*Chairman.*) I think the effect of what you have said is that you would to a large extent use the Paper Currency Reserve as a first line of defence for the Gold Standard. In view of that fact, and, of what I think is a fact, that the Indian branch of the Gold Standard Reserve is very largely a Paper Currency Reserve, what would you say to the possibility of amalgamating the two reserves?—I do not think that the amalgamation is really desirable. I can see no benefit in so doing, and it rather hides the position. If you show great strength in a special reserve specifically for keeping up exchange it has a good effect. If you amalgamate the two reserves, the only thing that I can see would happen would be that you would increase the amount of silver held by, say, six crores and the invested portion by 15 millions and perhaps two millions in gold, and against that you would have to issue in India the equivalent in notes; and if you utilise those notes for public works then your Gold Standard Reserve has disappeared; if not, you are simply holding the reserve nominally in India in notes.

6455. I think some of the criticism which has been directed against the management of the two reserves has been that they have been to the extent that you advise interchangeable. It has been objected, for instance, that the object of the Paper Currency Reserve is to guarantee the encashment of rupee notes in rupees, and therefore any gold there is out of place, but the object of the Gold Standard Reserve on the other hand is to guarantee the exchange, and therefore any silver there is out of place?—But if the reserve will answer the two purposes it surely would be a mistake to earmark it for one only.

6456. You do not think that any serious confusion arises from the existing practice?—Certainly not.

6457. In paragraph 16 of Appendix XXIV., page 593, you say "The invested portion of the reserve"—I think you are speaking of the Paper Currency Reserve—"lacks "elasticity, and in this respect the Paper Currency Act "requires amending." Will you tell me what is in your mind as regards an amendment of the Paper Currency Act?—At present under the Act the total amount of fiduciary issue is limited to 14 crores against the circulation of something like 66 crores at the present moment, and at a time of active trade when there is a demand for more currency it would be a great advantage to increase the fiduciary issue. I think that probably it might safely be increased to a proportion of the total circulation.

6458. To what proportion would you say?—I would say up to perhaps 35 to 40 per cent., and that assuming that you had invested up to 40 per cent. and notes then came in for encashment, it should not be necessary immediately to realise your securities until such time as the percentage reached something between say 55 and 60 per cent.

6459. I do not quite follow that. You would raise the proportion of the fiduciary issue by law to about 40 per cent.?—Yes, you could invest up to 40 per cent. Assuming that you have invested that 40 per cent. and notes come in for encashment, your specie reserve would then have fallen below 60 per cent., but I would not say that you must then immediately sell your securities, because that would tend to bring about a crisis, but you would allow the invested portion to rise to about 60 per cent.

6460. You would be getting into a rather dangerous position by that time, would you not?—Naturally, before you reached your 60 per cent. you would be gradually realising. That would be the limit, but it would be dangerous to force you to realise immediately you reached the 40 per cent.

6461. It has been suggested to us that if the proportion of the fiduciary issue were increased, as you propose, it might be wise for the Government of India not to invest up to the full limit allowed in permanent investments, but to keep a proportion from which they might make those loans to trade which you think so desirable?—That was my idea—for that purpose specially.

6462. That they might lend temporarily?—Yes.

6463. On securities?—On various securities, trade bills among them. Perhaps the best class of security would be foreign trade bills; naturally they would turn themselves into cash in a very short time.

6464. You would not insist upon the deposit of Government securities?—Not necessarily; I think not. Of course, what I strongly advocate is a central bank with the note issue, and then the general assets of the bank would be held against it.

6465. Before we come to that I want to ask you one or two other questions. Have you any general observations or criticisms upon the present management of the note system apart from its inelasticity?—

I think that more could be done to popularise the circulation of notes by the opening of numerous currency agencies where, not necessarily by obligation to be imposed, but in practice, notes would be freely encashed, and *vice versâ*.

6466. Where Government would undertake to cash them as long as it was convenient?—Yes, as long as it was convenient.

6467. But without undertaking a legal obligation?—Yes, and where they would be prepared to go to the expense of remitting coin when necessary.

6468. Would you suggest that the higher denominations of notes should be universalised?—I see no objection to it. I do not think it would cost so very much. It would undoubtedly cost something to Government; Government would lose what at present they make on the exchange which they charge for currency transfers, as for instance, from Calcutta to Rangoon they charge one-eighth per cent., and from Madras to Bombay one-sixteenth per cent., and so on. It would immediately lose that, but indirectly I think the gain would cover it.

6469. The internal transfer of money would then be done by notes?—It would be done by notes, and the mere fact that you could transfer notes from one place to another and obtain silver would to a certain extent in my opinion reduce the demand for the coin.

6470. Now let me turn for a moment to the question of a gold mint and gold circulation. You say that in theory there is something to be said on the side of the advocates of the gold mint. What have you in mind?—The mints are closed to silver, and I think it is reasonable that the holders of precious metal should be enabled to turn it into coin of the realm; and in India especially what I really had in mind is that in times of scarcity those that hold gold should be able to convert it readily into coin or the equivalent.

6471. From your observation that you believe in practice the mints would be silent, I gather that you do not think much gold would come in?—I do not think much gold would come in, not sufficient to justify the mints, but in place of that the gold could be received and Government could bear the cost of shipping it home.

6472. From your point of view a mint is a rather expensive luxury?—Yes, it would be more economical simply to ship the gold home. While it is in transit it can be held as a portion of the currency reserve.

6473. You do not think they would get the gold produced by the Indian mines tendered for coinage?—They might, but that is quite a small quantity; it is about two or three millions, I think.

6474. You say that in times of stress there is something to be said in theory at any rate for having a gold mint, where natives who have hoarded gold can bring it to be coined?—Not necessarily to coin it in India, but simply to present the gold and have it assayed and refined, and get cash for it.

6475. Then, as far as there is in your view any reason for a mint, the purpose would be equally served by an undertaking from the Government to purchase gold?—Yes.

6476. Would not the receipt of gold at the mint be simply a duplication of the existing system by which gold is received at the paper currency chests?—At the paper currency chests it is only sovereigns that are accepted at present.

6477. Not gold in bullion?—No, not gold in bullion; so I understand. Originally, when the mints were first closed to silver, gold in bullion was received, but I understand that that facility has been withdrawn.

6478. Does your experience lead you to think that the public have any difficulty in getting sovereigns when they want them in India?—Not any real difficulty. There are certain restrictions in Madras; I speak for Madras only. Sovereigns are issued in 10,000*l.* at a time only, but I do not think that is any real difficulty. The banks can always get what they want. They build up the reserve themselves.

6479. There is not a very large demand for gold as currency in Madras, is there?—In two parts of Madras. In fact, the two native States of Cochin and Travancore since 1903 we have financed entirely by gold, and in Travancore and Cochin the gold is, you may say, in active circulation now, but that has been the case only since last year. Up till then in the busy season, that is, when the export season was on, gold was circulating very freely in the bazaar, but when the export season ceased and the import season was on—they import very large quantities of rice from Burma—the money that came down from up-country in payment for the rice was entirely in rupees; but this last year I noticed that a certain portion of the accumulations in the slack season has been in gold, and I understand that in the Travancore Government treasuries there is a fair amount of revenue now paid by gold.

6480. Does that indicate a change in the habits of the people; does it mean that they are hoarding less?—I think that probably it means that the rupees which they had originally in hoards have all come out now and have been replaced by gold, and it now remains to be seen whether in the future they will be prepared to take all gold or whether we will not have to send a very large quantity of silver down there now. A curious thing is that in those places they will not look at notes.

6481. (*Sir Robert Chalmers.*) Historically gold was a great portion of the currency in Madras?—Yes, but I think in those days the actual circulation was very small, and almost everything was paid in kind. All wages would have been paid in kind, and rents were paid in kind. In fact, in some places in Madras now rents are still paid in kind.

6482. The metallic currency of Madras in the old days was the swami pagoda?—Yes, the actual gold coin.

6483. Gold currency has a historical basis therefore in Madras?—Yes.

6484. (*Chairman.*) I suppose you feel that as bankers your business is to give the public what they ask?—Yes.

6485. But you have a preference; if you could influence them would you influence them to take gold rather than notes or *vice versâ*?—I do what I can to influence them to take notes. I am always prepared in the up-country branches to buy bills on the centres at a cheaper rate if they will take the proceeds in notes, and to some extent we have been able to increase the circulation in this way.

6486. Will you tell me briefly your reasons for encouraging the circulation of notes rather than gold?—The chief reason to my mind is that the gold would then be in the central reserve, it would be obtainable when it was wanted, and also that the larger your circulation of notes is the smaller the quantity of gold which would be necessary because you would increase your fiduciary issue according to the increase of the issue.

6487. I take it that you hold that gold is a wasteful medium of circulation?—Yes, I agree to that.

6488. That the more it enters into circulation in displacement of notes or rupees the less the profit which the Indian Government can obtain?—Yes.

6489. Further, I understand you to hold that gold in reserve is infinitely more valuable for the maintenance of the exchange than any amount of gold in circulation?—Yes, I agree to that.

6490. You say in paragraph 27 of Appendix XXIV. (page 594) that the Mahomedan law of succession directly leads to the hoarding of gold. I do not want to go into that at length, but could you briefly explain to me how that is?—We will take the Hindu law of succession. I must exclude Bengal where the law is somewhat different, but generally speaking all over India according to the Hindu law of succession the family is an undivided family and the property is divided among the male members of the family; so that although a man may have unlimited means, may have his investments in stocks and shares and deposits in banks, and may even specially insure his life in favour of his wife, yet the widow cannot claim twopence; the only things that she can claim are the gold ornaments which she possesses, and I believe it is now extended to actual gold coin which she has in her personal possession. The man might have no sons, but if there was some

scamp of a nephew all the property must go to the nephew.

6491. So that it is in fact the only provision that a man can make for his wife or daughters?—Yes. Then with regard to the Mahomedan law of succession, that is different, because there the wife and daughters are entitled to a certain proportion; but then they are entirely *gosha*, that is to say, they cannot go out, and they are dependent entirely upon agents to look after their affairs, and they are very badly swindled; in fact, they practically get nothing. If I may say so, since I wrote this I have had the advantage of having a conversation with a member of the Egyptian Government connected with finance there. I was talking over the matter, and he told me that exactly the same thing exists in Egypt.

6492. Now I come to the question of a central bank. You are strongly in favour of the establishment of a central bank?—I think it would undoubtedly be a good thing for India.

6493. Am I right in thinking that you regard the reserve treasury system as the chief cause of the annual periods of stringency in India?—One of the causes—the reserve treasuries and also the accumulations in the other treasuries.

6494. It is to remedy that condition of things that you propose the establishment of a central bank which shall hold all the balances of the Government of India, and of the India Office?—Yes, that is one of the reasons.

6495. Will you give me your other reasons?—Such a bank would also have much greater credit, and, with a London office could in times of stress be in a position to raise further finances. Then again, it would do away with the trouble as to where the balances of the Indian Government were to he located. It would not matter whether they were with the London office of the bank or with the Calcutta office, because they would still be available in the reserve of that bank, and would enable it to finance more trade. If they were in London they would also be of assistance in London, because they would be with the Bank of England.

6496. You contemplate that such a bank would manage the paper currency system?—They would take over the paper currency and the bank would be in a position largely to increase the circulation. It would be so much to their interest to increase it, and they would be prepared to spend more in moving specie about for the encashment of notes, looking indirectly to the profits which they would make on the invested portion.

6497. Do you contemplate that the Government would transfer the whole of the profits of the note issue to such a bank?—That is perhaps a matter of detail to be arranged afterwards. I should not think that the bank would ask for the whole profit. I should think that probably the Government would be entitled to the average profit which they had made for the last so many years, and if they were interested in the bank in the way of shareholders as well—and I see no reason why they should not be interested—they would then benefit by the profit made by the bank.

6498. How do you contemplate that such a bank should be brought into existence. Is it to be superimposed on the present banking arrangements of India or is it to have its birth in the amalgamation of the existing Presidency banks?—By the amalgamation of the existing Presidency banks. I do not think there is room in India for a big central bank and the Presidency banks as well.

6499. The mere amalgamation of the banks with their existing resources would hardly answer your expectations, would it?—Necessarily if we were taking over the note issue we would have to increase our capital. That would be expected of us.

6500. You talked just now of having the Government as shareholders. Are you looking to the Government for the increase of capital, or only for a portion of it?—I thought, as a matter of fact, that it would be possible for the Government to take up a great portion of the new capital from their silver branch of the Gold Standard Reserve. They have at present got six crores there, and if they simply put those six crores into the currency reserve, and issue six crores of notes, the transaction is complete, and it is interest bearing, and the rupees which you put into the currency reserve are just as useful there for the purpose for which they are held as they are at the present moment.

6501. You invest six crores of the currency reserve in bank shares?—Of the Gold Standard Reserve. You put the silver into the currency reserve and issue notes, and thus increase the capital of the bank.

6502. The rock bottom of the whole thing is that you have invested six crores of the Gold Standard Reserve in shares of the Bank of India?—In shares of the Bank of India. It is not necessary that the Government should hold the shares indefinitely; it is only if the central bank is approved that that would be the way in which it could be formed originally, and they could gradually get rid of the shares in the market if considered desirable.

6503. What control of or representation on such a bank do you think the Government would have?—It would be necessary to have a number of local boards in in my opinion; you would have one in London, one in Calcutta, one in Bombay, one in Madras, and perhaps, if necessary, in other centres later on, and I think certainly that the Government would be entitled to have representatives on the directorate.

6504. Would you give the Government representatives a veto or would they only vote like their colleagues?—I think the mere fact of their being present would be sufficient. Of course, they would have, indirectly, practically a power of veto, as the central bank would be so much dependent on their goodwill, and if the central bank were doing things of which they did not approve, the Government would immediately withdraw the facilities. It would bring such pressure to bear, that really all that is necessary is to have directors who will watch what is being done.

6505. Supposing all the balances were transferred to a bank of this kind, do you think that in normal times it would set free much money which is now locked up?—I think so. I think that a large portion of the balances in the treasuries would be available, especially if, later on, they were able, as I surmise they would be able, to increase the circulation of notes. It would be then a very much simpler matter to bring all the funds as they are collected in the sub-treasuries, to the headquarters immediately by note remittances.

6506. This bank would combine in one reserve the banking and the currency reserves of India now divided between the Presidency banks and the Government?—Yes, banking, Government reserves, and treasury reserves.

6507. It would take over, as I understand, the whole of what you might call the the banking business now done by the India Office?—Yes.

6508. The sale of drafts on India?—Yes.

6509. And the lending out of balances in the city of London, if necessary?—Yes.

6510. Would it also undertake the business of keeping exchange steady?—It could only do so as the agent for Government. The Gold Standard Reserve fund would remain a Government Fund, and the Government would still have the profits on the minting of silver, and they would have to bear the cost of maintaining the exchange.

6511. The responsibility for the management of the Gold Standard Reserve would still necessarily remain with the Government of India?—It would necessarily remain with the Government of India.

6512. And it would only be through the use by Government of that reserve that the exchange could be maintained?—Yes.

6513. Do you think that the Government could safely leave such very large balances with a bank of the character that you have described?—If it were a bank with roughly a capital of 10 millions as was suggested, the comparison would then be as I have shown in my statement; in the case of the Bank of England the percentage of capital to liabilities is 18·6 per cent., as compared with the Bank of France 3 per cent., the German Imperial Bank 7 per cent., and the suggested Bank of

India 14 per cent.; that is to say, 14 per cent. against the Bank of England which is 18 per cent. That is the largest; it is much higher than the others. If you take the proportion of specie reserve to liabilities the suggested bank would have 53 per cent. as against the Bank of France, which is the largest, 60 per cent.

6514. Of the 10 millions pounds which you are allotting to the bank four millions would in effect be the Government's own money?—Temporarily, until they realised.

6515. Until they disposed of the shares?—Yes.

6516. Do you not think that, with the responsibility which you would leave to that bank for large Government balances, and above all for the note issue, it might be necessary to insist that the shares should have an uncalled liability. I understand that at present the Presidency banks are fully paid up?—The shares of the Presidency banks are fully paid. I think from one point of view it might be desirable, but it might put difficulties in the way of the scheme.

6517. I quite understand that?—I mean because so many of the shareholders are retired officials with pensions, and they would not like to saddle themselves with a liability of that description.

6518. Supposing that it were held that there must be uncalled capital in order to provide a sufficient guarantee of security, do you think that the objection to that would be so strong as practically to make it impossible for the Presidency banks to come into the scheme?—It might wreck the scheme. It is not possible to say definitely. It would be a pity I think to run the risk.

6519. Great importance has been attached by some witnesses to the present local management of the banks. If I may refer to a particular witness, here is what one witness says: "Each of the three Presidency "banks has evolved a practice adapted to its own "environment and their absorption by a State bank "would in a large measure involve the sacrifice of "the advantages to trade which this specialisation "secures"; and he goes on to say that he thinks it of great importance that there should be local management in order that the policy of the banks may be directed to meet the local requirements.* You do not think that the necessary centralisation in creating a State bank would interfere with the banks' power to meet the different needs of the different localities?—I think not, with local boards given sufficient powers.

6520. You would have to give considerable powers to the local boards?—Yes, you would, and certain safeguards, so that the resources of one Presidency would be available for that Presidency. It would all be a matter of the general arrangements, and I see no reason to anticipate that there will be any undue preference given to one centre over another.

6521. Did you contemplate having representatives of the Government on the local boards as well as on the central board?—Yes, I think so.

6522. I am not quite clear what position this bank would hold *vis-à-vis* of the exchange banks. Would it do general exchange business?—My idea would be that it would confine itself to doing exchange business for the exchange banks, buying and selling on London or on India practically for the exchange banks, re-discounting exchange bank bills in India, and selling on India in London to the exchange banks only. I realise that the exchange banks have done very good work in India, and that it would not be right in any way to hamper them in their legitimate business. They have got vested interests which should be respected.

6523. Would you propose that the bank should have power to borrow in London?—Undoubtedly.

6524. I presume that would be objected to by the exchange banks?—I do not think that the exchange banks would object to our borrowing in London providing that there were safeguards with regard to exchange business. Their objections previously have always been that they thought it was the thin end of the wedge of getting into exchange business; they are frightened that we would borrow in London, and then, in order to remit the money we have borrowed in London, go out into the market against them and buy bills in London on India, and *vice versâ*, that to pay off the loan we should buy bills in India against them, and remit to London to pay off, and that we should keep the ball rolling, and that we should borrow a great deal more than we wanted in order to enable us to carry out the operation.

6525. Your remedy for that is that you should buy or sell only through the exchange banks?—Only through the exchange banks. It really comes to this, that we are simply doing what Government are doing with regard to Council bills now and selling on London. The only addition to that that would be probable would be the possibility of re-discounting the sterling bills for the exchange banks in India at a time when discount rates were high in London and money was particularly cheap in India.

6526. If such a bank were established would you propose that the Government of India should issue fresh rupees when asked by them?—I should think that the Government of India would be guided largely by the advice of the central bank as to when it was necessary to coin fresh rupees.

6527. One further question, and I think I have done. Supposing that it were decided that there should be no such central bank, do you desire to recommend any alteration in the conditions which now govern the Presidency banks?—I think that the whole Bank Act should be amended, and especially that the banks should have access to London for borrowing purposes.

6528. That is what I had in mind; you think that they should be enabled to borrow in London?—Yes.

6529. But not to deal in exchange?—But not to deal in exchange; I would exclude dealing in exchange. They should borrow in London and remit through Council bills, and when they have to pay back the money they must remit through the exchange banks or by Government drafts.

6530. (*Sir Robert Chalmers.*) In your experience is there any movement among the Presidency banks themselves towards amalgamation?—I cannot say that there has been a movement among them. I have personally discussed the matter with the Bank of Bengal, but it was at very short notice; it was only when this Commission was appointed and I was asked to attend as a witness, that I went up to Calcutta just for a short time.

6531. You are not aware of any movement among the Presidency banks?—No.

6532. There is nothing in the way of their own interest as trading concerns which has promoted such a movement so far as you know up to the present time?—Up to the present time there has been no movement.

6533. Outside the Presidency banks themselves is there in your observation any organic movement among the public to impel a union or confederation?—No, there has been nothing of the kind so far as I know.

6534. So that it is not a popular movement either in or outside the Presidency banks?—Not that I am aware of. I have put the thing forward because in my opinion it is a very desirable move and a step in the right direction, and it would help on India generally.

6535. Assuming that there were a State bank on the lines which you have indicated to the Commission, your position is that the responsibility should to a very large extent be left with the Government; they would be directors of the central institution and on the local boards, and should have a power of veto I think you said in practice?—In practice they would.

6536. And they would be so far the biggest customer that they would be able to bring very great pressure to bear?—They would be able to bring very great pressure to bear, yes.

6537. Leading possibly if they pressed it far enough, to the upheaval and destruction of the institution?—Yes, but that is unthinkable, as they are so much interested themselves.

6538. So far as the responsibility is ultimately left with the Government, would the advantage from a State bank mainly be to the public through the bank

* *See* Qu. 3966 *supra*.

in the way of getting money available more readily for trading requirements?—I think so.

6539. That is really the bedrock of your proposition?—Yes.

6540. You want to get money available when trade wants it?—I want to get money for trade purposes, and the general development of the country, railways, and so forth—to economise the use of money.

6541. Would not this advantage tend to be secured in another way, that is by lending out balances, or say a part of the fiduciary portion of the Paper Currency Reserve?—That would be a step in the right direction, but I do not think it would have the same effect.

6542. Why should it not have the same effect? Suppose that under your State bank plan you get x crores of rupees available, if you got x crores of rupees available from the fiduciary portion of the Paper Currency Reserve, would not that be the same?—Unless the bank had the direct management it would mean long correspondence before the money was made available for trade, and the time would be past when it was required.

6543. You think there would be difficulties owing to creaking machinery?—There would be difficulties in the machinery.

6544. And it would come to this, that if the machinery was so oiled as to make the balances available, that would tend to meet your main object in connection with the State bank?—Quite so.

6545. May I ask you a question or two about exchange. You say when exchange weakens and you cannot sell telegraphic transfers and Council bills at 1s. $4\frac{1}{32}d.$ and 1s. 4*d.* respectively, they should cease to be offered. That is the essential portion of your scheme so far as exchange is concerned?—To my mind it would strengthen exchange very much if that were done. When they are unsaleable at those rates it shows distinctly that there is no demand. It is easier to keep exchange up than to bring it up again when once it has dropped. The best way is to keep it steady.

6546. You are not prepared to work exclusively therefore between gold import and gold export point?—No, I think that it is preferable to keep within narrower limits.

6547. Are there any other countries which you can point to where exchange is not allowed to find its own level by the equation of supply and demand?—No, I do not think there is any other country.

6548. Take France for instance. Let us assume that their specie points are 25 f. 11 c. and 25 f. 33 c.?—Yes.

6549. They sell between those points; but you would make a difference in the case of India?—I would make a difference in the case of India.

6550. You would stand out for a top price; you would not drop to the specie limit below?—No.

6551. Suppose that theory of exchange were carried out in other countries, what would happen; it would tend, would it not, to stop exchange operation through banks. If a buyer stands out for the lowest price, and the seller for the highest price, you do not get any business done?—Yes, but through my scheme you are simply financing the bank, you are not financing the general public.

6552. It has relation to the bank?—It has relation to the exchange banks only. The specie point between London and India is a much larger difference than that between London and France. There is plenty of room for the banks making their profits although you reduce the limits.

6553. But that difference in amount does not affect the question of principle, does it? You are proposing to ignore at least one of the specie points, and to say that you will stand out for a top price. What I am asking you about is this. I would like to learn your reasons for departing from the practice which, I understand you agree, is the general practice of equating supply and demand?—In my opinion the closer you can bring the specie points the better.

6554. Can you bring that closer?—No, you cannot bring the specie points closer, but by such an operation as this you make the transfer of funds from one market to the other as cheap as possible. There is less risk in transferring funds freely from one centre to the other.

6555. Would your system be cheaper than any other? Would not your system involve the shipment of gold to and fro more?—No, practically there would be no gold shipment at all.

6556. You think that, do you?—I do. It is with the object of saving gold from being shipped from here that I sell on India below specie point.

6557. That is your view. You would not be prepared then to accept the doctrine that it would be the business of the Secretary of State to get his money across if and when it is available according to the terms of the day?—I think it is advisable that the rate should be such as will save gold from being withdrawn from London. My real object in keeping the rate below the specie point is to avoid the shipment of gold from London, because the withdrawal of gold from London reacts on the India export trade.

6558. But you feel that your system is a more artificial one than the one usually in force?—Yes.

6559. (*Sir Ernest Cable.*) In talking about Government loans, you said that you thought that not much more money could be borrowed in India by Government than is now being borrowed?—I did.

6560. You mean of course on the present terms and conditions?—On the present terms and conditions.

6561. If the rate of interest were raised on a fixed term loan could not a great deal more be borrowed?—It is possible that larger loans could be floated if better terms were offered, but it would have the effect of depreciating the present securities.

6562. You said just now with reference to a central bank that there was no popular movement in favour of a central bank in India; but in your experience of India do you find popular movements frequent and insistent, or are they somewhat rare and weak?—I think they are rare.

6563. They are rare and weak, and so one has to move ahead of them?—Yes.

6564. You said with regard to that simple operation of placing Government money at the disposal of the banks during the winter season, that there would be some delay, and, in Sir Robert Chalmers' phrase, that there would be creaking in the machinery. It is one simple operation, but throughout the whole of your memorandum (Appendix XXIV., page 591), if you will glance through it from that point of view, I notice that you recommend most intricate banking operations should be performed in order to carry out your exchange policy and your lending policy and so on—banking operations which perhaps the Government could not carry out so well as a central bank. Is that your view?—That is my view. The central bank would carry them out more expeditiously, and would be in a position to know the pulse of the market, and to know what was required to meet the needs more quickly than a government possibly could do.

6565. It has been said by some people on the subject of a central bank that the area over which this bank would extend its operations is too large to secure efficient management. Have you any views about that?—I do not think that that difficulty is insuperable. If we take the present sphere of the Bank of Bengal, it probably covers more than three-fourths of the area, leaving the other to the Bank of Madras and the Bank of Bombay; and with local boards I see no insuperable difficulty.

6566. So you think that the amalgamated bank would simply proceed to extend those spheres of influence already marked out?—Yes.

6567. Without much change?—Without much change.

6568. You mentioned that Calcutta should be the head office. Have you any reasons to give for that?—Calcutta is the head office of the largest of the three banks; the capital of the Bank of Bengal is more than the combined capital of the other two banks, and I think that naturally on such an amalgamation the Bank of Bengal would be entitled to consider Calcutta as the head office.

6569. Geographically there might be some difficulty?—Geographically Calcutta is more or less equidistant. If you take the distance from Calcutta to Delhi, Calcutta to Bombay, Calcutta to Madras, or Calcutta to Rangoon, it is more or less central.

6570. But if there were certain local jealousies which would militate against the immediate formation of this bank with a Calcutta head office, you would have no objection to having another centre for the head office?—No; if it was a case of elsewhere to save wrecking the scheme. I would raise no objection if it were Madras.

6571. The financial scheme which you suggested seemed to me to be open to the objection that we have had put before us by other witnesses of involving a very large capital, and if the Government were to come in as shareholders at the beginning, it would be necessary, I suppose, to capitalise the undertaking at the market price of the shares?—The new capital would have to be capitalised, of course.

6572. At the market price?—Yes.

6573. I might, perhaps, suggest an alternative scheme which is free from the objection of starting with a very large capital. Would it not be easy to make the ratio between capital and reserve the same in each of the Presidency banks? This is already more or less the case now, is it not?—They are more or less now. The reserve of the Bank of Bombay is slightly in excess of their capital; in Madras it is very close, and so is the Bank of Bengal.

6574. It could be done with more or less difficulty?—There would be very little difficulty in doing it.

6575. If they were brought up to the same ratio, then the shareholders of the central bank might receive share for share of their present holdings in the existing banks. That would be quite a fair distribution?—Yes.

6576. Then with regard to the new capital which, of course, is required, would you see any objection to this, namely, that the new capital—let us call it three crores of rupees for the sake of argument—should be offered to the existing shareholders *pro rata*, and that only 20 per cent. of the new capital should be called up?—I see no objection to that proposal.

6577. That would create a very large reserve of uncalled capital, and would perhaps justify the Government in having the greatest confidence in the new bank?—I would suggest three crores with 25 per cent. paid up.

6578. Let us say 20 per cent. This would give you all the capital you wanted, and you would also have a large amount of uncalled capital, which would, I think, help to induce the Government to hand over the whole of the balances?—I would have no objection to that. I have not set my heart on any special scheme at all; I am quite open to any suggestion.

6579. Do you think that this new central bank would have the effect of drawing out any money from the hoards?—In so far as it would increase the number of branches, it would probably bring out a small amount, but not very much.

6580. There are hoards of two classes in India, are there not; there are hoards by the princes and maharajahs?—Yes.

6581. Would not those be extracted?—Yes, I think probably we could get hold of more of those. Even now we have a fair amount.

6582. (*Chairman.*) Why would the central bank get more of those than your existing Presidency banks do?—Because I think there would be more confidence. It would be recognised as being a very much bigger bank, and perhaps as being a Government institution.

6583. (*Sir Robert Chalmers.*) That is so—because it would be a Government institution?—Yes, I think so, with the Government prestige.

6584. The Government prestige and Government responsibility?—It might be considered that there was Government responsibility.

6585. Given Government responsibility, that would tend to the purpose that Sir Ernest Cable has in view?—Even now the Presidency banks have more or less that prestige. They are considered as Government banks.

6586. Then what is the added prestige if there is that feeling already about the Presidency banks?—As I say, to a certain extent, not among the less enlightened portion of the people—if you take the native states and native rajahs, they understand more clearly the true position.

6587. You put it practically on the direct responsibility of the Government being superadded?—Yes, and the stronger institution.

6588. (*Sir Ernest Cable.*) Do you think this new State bank should as one of its usual functions lend out these balances to agriculturists, or I should say rather to co-operative credit societies?—I think it could within certain limits. Even now we in Madras indirectly finance, to a small extent, these co-operative societies. They have a central bank in Madras, and we discount their bills. The bills of the rural bank to the central bank we discount to a small extent.

6589. (*Mr. Keynes.*) I want to ask you a little more in detail about your proposal for making 1*s.* 4*d.* the lower limit for Council bills. In my own mind I am very doubtful which way the argument lies. I see that there are manifest advantages in reducing the fluctuations, because, as you said, it makes it much easier to transfer capital; but I want to put to you the argument on the other side and to know what you think of it. When exchange is weakening it is very important for the Secretary of State that people should not remit funds from India to England unless they absolutely have to do so. He wants the banks to bring back as little money as possible. If exchange is allowed to fall, within limits, that makes it less profitable for the banks and other persons to bring money home, and, therefore, reduces the amount which he need keep in reserve. I will put it in this way. If you were to fix exchange absolutely so that he would sell bills either way at 1*s.* 4*d.*, then enormous sums would be remitted backwards and forwards at the end of the busy season and at the beginning of the busy season?—Yes, probably.

6590. The Secretary of State would have to keep very much larger reserves than he does in order to be sure of being able to make remittances both ways at 1*s.* 4*d.* to whatever extent was required. Each one-sixteenth fluctuation leads to a few persons who would otherwise remit not doing so, and a difference, for example, of one-thirty-second in exchange is as much a protection as an alteration in the bank rate of 1½ per cent. on three months' bills and 3 per cent. on six weeks' bills?—Yes.

6591. All that being so, do you think that the Secretary of State would be much increasing his liabilities if he were to follow the policy which you have suggested?—I think not, because, assuming that he buys and sells at the same rate of 1*s.* 4*d.*, it would not affect the balance of trade. It would simply be this, that temporarily, if rates were suitable in India, and there were higher rates of interest, a large amount of money—capital—might be remitted from London which would give you gold here to start with and would then be brought back again. On the balance it makes no difference, whereas on allowing exchange to drop you will have a rush for remittances to get the money home for fear it will drop further. There may be a large number of sterling bills that are falling due very shortly, therefore they will be paid at once rather than run the risk of letting them run for another fortnight and then having to pay a lower rate of exchange, which costs them more.

6592. Let us take the case where it is fixed at 1*s.* 4*d.* both ways. I think it is evident that in the long run it would turn on the balance of trade, but within the limits of a given year would not the Secretary of State have not only the ordinary fluctuations in the balance of trade but also superimposed fluctuations due to the fact that money would be sent to India for part of the year and then taken back to England for another part?—Temporarily, when money was very easy in India, it might make big inroads

and uncomfortable inroads on the gold portion of the currency.

6593. Quite apart from the balance of trade, persons in India might wish to bring back to England for three months, say, 10 million pounds?—Yes.

6594. I mean quite apart from the balance of trade?—Yes; you mean if money was very easy in India and could be profitably employed here?

6595. Yes, so that the Secretary of State would have to meet not only fluctuations in the balance of trade, but also any desire there might be on the part of people to remit money to England because temporarily it could be used here more profitably?—Yes.

6596. Every one-sixteenth fluctuation he permits must reduce that risk?—Yes, that is so. I do not think there is any great danger by reducing the difference. It is possible; that I admit. In theory you are quite correct.

6597. I come back to the actual figures, and suggest that it might be more serious. Suppose that as at the present moment the rate is 1*s.* $3\frac{15}{16}$*d.*, when an exchange bank or any other person is wondering whether it is worth while to remit funds back to England for a bit, which they will have to take out again in the busy season, one of the important things they must take into account is the loss on exchange?—That is so.

6598. A rather small loss on exchange corresponds to a rather large fluctuation in the bank rate?—Yes.

6599. Hence even a difference of one-sixteenth might make them remit back temporarily very much more than they do at present?

6600. (*Chairman.*) What do you say to that?—I am not quite certain of the point. The exchange banks, as a matter of fact, always cover their operations in practice. They do not keep a large amount outstanding either one way or the other.

6601. (*Mr. Keynes.*) To make 8 per cent. in India for six weeks and to remit back at a loss of one-sixteenth of a penny to the rupee is the same thing as to make 5 per cent. in London for six weeks?—Yes.

6602. Therefore the inducement to remit which is brought about by a fluctuation of one-sixteenth of a penny in exchange is the same as an inducement brought about by a fluctuation of 3 per cent. in the bank rate for six weeks' loans?—Yes, that is so.

6603. You will agree that that is a consideration of which the Secretary of State has to take account?—Yes, I agree.

6604. I am not putting this as conclusive?—I admit that, but my contention is that the usual and more common operation would be to remit the capital from London to India in the first instance, and that the return of capital from India, where the reserve would necessarily be strengthened, would be uncommon. It would simply bring the same funds back again.

6605. There is a certain amount of money which is kept in India all the year round?—Yes.

6606. What I am suggesting is that there will be a much greater tendency to bring that back in the slack season?—Yes, there might be. The money that they kept in India during the slack season is largely Indian money, Indian deposits, and it might be to their advantage, if you lessened the difference, to bring it home temporarily.

6607. I think it quite clear that the Secretary of State could not safely fix it both ways at 1*s.* 4*d.*?—No, quite so.

6608. It is simply a question at what point he sufficiently safeguards himself?—Yes.

6609. I want your opinion upon that. Do you think he has sufficiently safeguarded himself if he allows a fluctuation between 1*s.* 4*d.* and 1*s.* $4\frac{1}{32}$*d.*?—I think that is fair.

6610. You think that the present fluctuation is more than he really requires?—Yes.

6611. You have expressed the opinion, I think, that Government loans to the extent of three or four crores in the busy season would ease the situation. Other witnesses have put the figure even so low as two or three crores. In making that estimate, are you assuming that all the funds now available would still be available?—Yes, I am assuming that.

6612. That it would be the net addition?—Yes.

6613. If it had the effect of reducing the bank rate from 8 per cent. to 6 per cent., do you think all the funds now available would be forthcoming?—I think so; I do not think it would affect that. My idea is that the deposits would not fall off because the rate had gone down.

6614. That is one point. I was not so much thinking of that as of the transactions between London and India?—I do not think that those would be affected materially either.

6615. When an exchange bank is buying Council bills in order to obtain funds in India with which to discount sterling bills, I suppose they are much influenced by the rate at which they can discount them?—Yes, the London rate, not the Indian rate.

6616. But that must be connected with the Indian rate, because the rate of discount of sterling bills in India would not be altogether independent of the rate payable for other loans?—So far as I know the exchange banks base their rate entirely on the London rate, plus the rate at which they can buy their Councils. It is not influenced much by the local rate.

6617. I mean the rate at which people can borrow money by discounting their sterling bills cannot be altogether independent of the rate at which they pay for other kinds of accommodation?—I think it is. So far as I am aware the exchange banks base their rates entirely on the London rate for their sterling bills.

6618. It does not make the smallest difference to the exchange banks in any of their transactions whether the bank rate in India is 6 or 8 per cent. then?—It makes a difference in their local business, but not in their exchange business.

6619. Are those two in absolutely watertight compartments?—They are more or less.

6620. You say the exchange banks are not influenced in the least in bringing out money by the fact that there is an 8 per cent. bank rate in India?—I do not think so. Their local business is largely worked upon their local resources, and their exchange business upon the basis of the London rate. But I do not pretend to speak authoritatively upon this because I am not an exchange banker.

6621. I want your opinion on that point. You think that with a bank rate of 6 per cent. the amount of money that is forthcoming would be practically the same as at 8 per cent.?—I think so. I do not think it would affect the amount of money that the exchange banks would bring out.

6622. I come to the other side. Do you think that the demands for loans at 6 per cent. are not much greater than at 8 per cent.?—Yes, I think so, decidedly.

6623. You think the excess is only about three or four crores?—I think three or four crores, as I said before, would ease the market very considerably. It would be a very great help. I would not like to state definitely that no more could be utilised.

6624. Let us go a little more deeply into the causes of a high bank rate in India. You think that a bank rate of 8 per cent. rather than 6 per cent. is simply caused by there being three or four crores less loanable capital than there actually is?—I think three or four crores would reduce the rate from 8 to 6.

6625. (*Chairman.*) Three or four crores more?—Yes.

6626. (*Mr. Keynes.*) I do not want to press all this unduly, but let me put it to you in another way. I should have said that the bank rate in India was fixed in this way; you must either leave your money idle during the slack season, earning at best a very low percentage, or you must remit it back to England. In the first place, what you must consider is the average rate of interest throughout the year, and there is no evidence that that is higher in India than in other countries; or you must remit back and then you must make the loss on exchange which we have been talking about?—Yes.

6627. Must not the 8 per cent. rate in a busy season exist in order to counteract either the low rate in the slack season or else the loss of exchange?—I see your point, but in my view, I think cheaper money in the height of the season would enable India to finance her trade for longer periods.

6628. My suggestion is that a high bank rate is due to much deeper causes than to there being three or four crores more or less of loanable capital in the country, and therefore it is unlikely that it will be lowered by there being three or four crores more available. I mean that is a very small amount, as you will agree, in comparison with the extra sums which have become available in the last 10 years?—That is so.

6629. Each year you get an immense addition?—Yes.

6630. But still you find your bank rate going to 7 or 8 per cent.?—Yes, it goes to 7 or 8 per cent., but that is largely due to the withdrawal of currency at the time when it is mostly required. There is always a big contraction of currency from January to March, just at the time when an expansion is necessary for the financing of trade.

6631. Do you think that the withdrawal of which you speak is of the same magnitude as the relief which you would get by three or four crores more?—Yes.

6632. You do really think that this high bank rate is due to this somewhat casual circumstance rather than to deeper underlying causes?—I think so. It appears to me to be so.

6633. I want to come on now to the general question of a State bank. Can you tell me a little about the relation of the other banks to the Presidency banks? Do you keep an important amount of deposits belonging to exchange banks?—Exchange banks keep their local working balance with Presidency banks.

6634. But is it important?—No, not very important. It is always what Presidency banks look on as a very dangerous balance; you never know what it will be. One day they will have a big balance and the next day they will have nothing. Occasionally they borrow.

6635. In the case of the new Indian joint stock banks, do they keep much with you?—There is only one very small one in Madras, and they keep nothing.

6636. Have you any knowledge of these Indian joint stock banks?—No personal knowledge. Bombay is the centre for that.

6637. You suggest that in the event of the currency notes being taken over by the State bank some part of the fiduciary issue must consist of sterling bills. Do you deliberately intend to exclude hundis?—No. I simply mention that as a particular form of security which I thought was a very good one for temporary security for a note issue.

6638. You think that the best class of local Indian bills would be quite suitable for the purpose?—I think it would be quite suitable.

6639. If, as you suggested, it was part of the general banking business to discount against the note issue, of course Indian bills would form a large part of it?—Yes, such a bank would have the power of discounting to the larger local banks, and their bills would go into the funds. It would be the best security available. In fact it would be the general assets of the bank, similar to the Bank of France, where there are no particular assets earmarked for the note issue.

6640. You argue that the paper currency would be much encouraged if there were currency agencies all over India. I suppose that in the event of there being a State bank the branches of the State bank would be those currency agencies?—Yes.

6641. That would be a much more economical way of managing them than to have separate agencies?—Yes.

6642. That is very much part and parcel of the State bank scheme?—Yes, but it would be quite possible for the Government, even without a State bank, to have currency agencies. Where they have got large treasury centres they can have currency agencies.

6643. You are proposing an arrangement almost exactly like that of the Reichsbank, which has agencies all over Germany, which are instructed to cash notes wherever they can, but are not under a legal liability to do so?—Yes, that is what I mean—as a matter of practice always to encash them, but not to have the legal liability.

6644. We have been told that there is not at present very much economy in setting up branches of the Presidency banks in place of treasuries. Is that to any extent due to the fact that the currency chest still remains outside the province of the bank in those places?—No, the currency chest is held by the bank, but the funds in the currency chest, of course, are not available; they are a special reserve for the note issue. What happens is this: revenue is drawn in during the week, and goes to the credit of the Government account. On a certain day in the week the whole balance, that is everything except a small working balance, which varies from 75,000 rupees to a lakh or two according to the size of the Treasury, is transferred into the currency chest. The bank then simply becomes a collecting agent for Government, and once a week the surplus is transferred to the currency chest, and that becomes the security for the note issue.

6645. When the Government reduce their three lakhs to one lakh, does that mean that they have absolutely no more than one lakh in the place, or that they have transferred the two lakhs into the currency chest?—It means that they have transferred it into the currency chest. They might have 50 or 60 lakhs in the currency chest.

6646. So that the rupees are still in that place?—They are still in that place.

6647. What the Government does is to take them out of the control of the bank?—Yes.

6648. What advantage to the Government is that?—As far as I know it is no advantage at all. They hold large notes in the reserve treasuries against them. Of course, in the height of the season their reserve treasury is what they look to to meet their large sales of Council bills. It provides for the sale of Council bills some considerable time before they are actually sold, by the withdrawal of cash in actual circulation.

6649. (*Mr. Gillan.*) In fact it is the Government method of holding their balances?—Yes.

6650. (*Mr. Keynes.*) I do not quite understand whether when they transfer the two lakhs to the local currency chest they keep it in there in rupees or only in notes?—It might be rupees and it might be in notes. In the chest you will have a large balance of notes and a large balance in rupees. The notes, as soon as they are put in there, I presume, are taken off the note circulation, and the rupees then form a portion of the reserve.

6651. There are a great many rupees there which the Government can use for replenishing its balances, but which the bank cannot use?—Yes, which the bank cannot use.

6652. So that the lack of economy in the present system merely results from the separation between the banking and the note issue part?—Yes, it results from the separation.

6653. If they were combined the Government would have no motive whatever for reducing the three lakhs to one lakh?—They would have no motive, that is so; provided also that their treasury balances were with the bank. Their reserve balances are kept with the Accountants General.

6654. Of course, when the reserve treasury balances were falling very low they might have to withdraw rupees, but except in that case it would be no inconvenience to them?—No, it would be no inconvenience. It is a matter of having sufficient confidence, in leaving large balances with the banks, that the money will be forthcoming at a time when Government require it. I think that is really the sole explanation.

6655. Except in cases when the balances in the reserve treasuries are running low this practice of the Government, which makes it unprofitable for the bank to have branches, is of no advantage to them whatever?—No, it is no advantage.

6656. I think I understand clearly the great advantages which, as you maintain, would accrue from the existence of a State bank, but I would like to question you as to how far you think those advantages might possibly be obtained without a State bank. First of all, with regard to the paper currency, I understand that you think that the bank could use methods of popularising it which absolutely could not be open to the Govern-

ment?—I think that they would have means. I would not go so far as to say that the Government could not do the same if they would, but it would be more difficult for them than it would for the bank. We have direct dealings with the trading public and the Government have not, and we can induce our constituents to take notes by offering them more favourable rates than they could obtain by taking silver, which would cost us a lot of money to transfer.

6657. You suggested that against the paper currency a certain amount could be held in the form of bills?—Yes.

6658. Do you think that if there were no State bank the Government could possibly enter into the business of buying bills?—No, I should think it probably could not.

6659. So that part of your proposal is really contingent upon the State bank being established?—Yes, that is so.

6660. Would it be possible for the Government to lend to Presidency banks against the security of bills?—They might do it in that way.

6661. But you think that the use of the balances for discounting bills is essentially a banking operation?—I think it is. It could be carried out better by the bank, and more promptly.

6662. Then there is the point about the Government balances, which for various reasons which have been explained to us, are very big in India. Do you think that Government could possibly lend anything like all those balances to the existing Presidency banks?—No, I do not think they could use them—not the balances that they have at present of something like 20 crores. I do not think that would be a business proposition at present under present circumstances.

6663. So that your proposal for putting Government money at the disposal of trade is contingent on the establishment of a State bank?—Yes—the whole of their balances.

6664. There might be some increase even in the absence of a State bank?—I think under existing conditions very much more of the balance could be put at the disposal of the Presidency banks temporarily during the busy season.

6665. About how much more, do you think?—Of course, it would depend upon the season. It seems to me they could meet the requirements of the Presidency banks out of their funds which are doing nothing.

6666. Could they, do you think, lend enough of their balances to the Presidency banks really to meet your criticism, or could they only lend enough to meet your criticism if there were a State bank established?—I think that under existing circumstances they could lend us enough.

6667. So that that part of your proposal is not absolutely contingent on the establishment of a State bank?—It is not absolutely contingent on that.

6668. It would be more efficient though if there were one?—It would be more efficient if there were one.

6669. I come back to another point about which I think you have not said anything, or, at any rate, have not said much, in your memorandum, and that is the banking resources of the country. Do you think that there will be any substantial advantage in having the banking resources amalgamated, from the point of view of security?—Do you mean of the three Presidency banks?

6670. Yes, having their cash resources amalgamated?—It certainly would strengthen the position to a certain extent, in so far as the demand varies in point of time. In Bengal the demand arises earlier than it does in Madras. Our season continues longer. Therefore the amalgamation of banks in that way would strengthen the position. Do you mean whether it would make a stronger bank?

6671. I was thinking rather of the case of a crisis?—Yes, I think decidedly in the case of a crisis, if there were an amalgamation of the three banks the credit of the three banks would be stronger than the credit of an individual bank. A bank such as I have outlined would be able to command credit in London.

6672. Do you think that the present position is so safe that these are rather minor considerations, or do you think that the present position is not as good as it might be in the matter of meeting a crisis?—I think there are dangers about the present position.

6673. You would not feel perfectly happy in a severe banking crisis in India?—Certainly most unhappy. Unfortunately I went through a very serious crisis in Madras, and there was no outlet, absolutely none. I refer to the failure of Arbuthnot & Co.

6674. What do you mean by no outlet?—There was no outlet for obtaining resources. We were tied up in the Presidency practically. We have no recourse to London, and no possibility of raising money elsewhere; we depend upon our own cash balance.

6675. Could you not even draft in money from Bengal?—If Bengal happened to be easy at the time you could borrow money up to a certain point, but then you have your Bank Act, which comes in and provides that you can only borrow against certain securities. The Bank Act precludes a Presidency bank from lending to another Presidency bank without specified security.

6676. I think in answer to a question earlier to-day you discriminated between the effects of the sale of Council bills and of lending money in India in this way, that if Government released funds by the sale of Council bills that helps shippers rather than producers?—The Council bills are not applied for until the produce has been brought down for shipment.

6677. But if the Government money were available in numerous branches all over the country, you think that would strengthen the financial position of producers as against that of shippers?—I think so; they would be enabled to get financed more cheaply, and would be able to hold their produce if the market were unfavourable.

6678. That is to say, the money market in India is a very imperfect one?—Yes.

6679. Funds which are available to one class of borrower are not at all available to another class?—That is so. The producer has got to pay his kist, that is, the Government revenue, at a certain time, and, in order to pay that, he must either be able to sell his produce or to borrow on it. If the rates are high it practically means that the money is not available to lend, and, therefore, he has to sell; he sells to the exporting merchant, and the exporting merchant sells his bills to the exchange bank, and they obtain Council bills.

6680. I have only one more question to ask. Assuming that no State or central bank is established, you have said you would like an amendment of the Presidency Bank Act, by means of which they could have access to London?—Yes.

6681. Do you also ask for any relaxation in the matter of the rules regulating the terms upon which they can lend in India?—Yes, I should like those altered also.

6682. What sort of alteration would you wish in them?—The terms as to the security upon which one may lend are very stringent. You cannot lend on credit alone. You can discount a bill which has two names, but, as I say, even to the Bank of England I could not lend a lakh of rupees unless they put down certain securities which are specified in the Act. I say that the Bank of Bengal cannot lend to the Bank of Madras any money except if certain securities are put down. They can re-discount bills up to certain small limits, which would be of no use in the matter of helping the Presidency—up to five or six lakhs is about their limit.

6683. (*Mr. Gladstone.*) In your memorandum you propose that in the event of a central bank being established the head office should be in Calcutta, and you gave as a reason that the Bank of Bengal has the largest capital. It is also the fact that the territory of that bank has also much the largest population, and much the largest trade?—Yes.

6684. Sir Edward Law, in a minute which has been given to the Commission, dated in 1901, referred to the difficulty* of securing a thoroughly suitable board of

* *See* Appendix XV., pp. 437-8, para. 53.

directors, having the necessary leisure to devote to the business of a State bank. Do you agree in that?—I do not think that difficulty is insuperable.

6685. It is the fact, is it not, that the business of Presidency banks is very largely controlled, and necessarily controlled by the managers and deputy managers, because the boards of directors are not men of leisure; they are all occupied with their own business, and are quite unable to give much time to the business of the banks?—That is so.

6686. Probably the managers of the Presidency banks exercise quite as much control as the managers of the exchange banks in India?—I think so, quite.

6687. And the exchange banks have no boards in India?—They have no boards in India.

6688. Do you not think that a much stronger board of directors would be obtainable in London, supposing instead of having the head office in Calcutta you had the head office in London, with the local boards, as you have suggested, in the Presidency towns?—A London board would lack the local knowledge, which is a very great thing.

6689. Could not a board be got together in London consisting of business men with full experience, of good financial position, and the necessary leisure to admit of their giving time as in the case of the Bank of England?—That would be possible, but against the London board I would suggest that the Indian board's interests would be more for the benefit of India than those of the London board. They would look to India's interest, more than the London board are likely to do.

6690. Failing a satisfactory directorate in India, would you agree to a London board?—I have made my objections, although as I say I am not wedded to any particular scheme, but just the principle.

6691. But you have experience of your directorate and as I was a director myself I feel able to put the question? I think it is generally agreed that the directors of Presidency banks really have not got the time?—They cannot devote their whole time to the business of the bank and they cannot possibly have a thorough grip of the details.

6692. It would be almost impossible to get a satisfactory directorate of a large central bank so far as unofficial members are concerned in India?—I do not think you could get anything better in London. I do not think a board constituted in London could possibly have any better knowledge, or be able to control the real business of the bank, although they devoted their whole time to it. They would lack the local knowledge, which is a most important thing.

6693. I suggest that the central bank if established in London should be directed in the main by men of Indian experience?—Yes.

6694. It is a fact, is it not, that the bulk of the successful merchants return to England somewhere about forty?—Yes.

6695. In the prime of life?—Yes, but they very quickly lose touch; conditions change so rapidly in India.

6696. Many of them are in their own businesses as well in England?—Yes.

6697. They do not lose touch with India?—No, not to such an extent.

6698. Do you think that such an arrangement would meet with general approval in India supposing it was agreed that a satisfactory directorate could not be obtained in India?—I do not think it would be popular from an Indian point of view.

The witness withdrew.

At the India Office, Whitehall, S.W.

FIFTEENTH DAY.

Friday, 18th July, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. WILLIAM BERNARD HUNTER recalled and further examined.

6699. (*Sir Shapurji Broacha.*) You do not find any fault in the selling of Council Bills by the Secretary of State, do you?—No, I have found no fault with the sale, but I consider that it is advisable to sell below the gold point; that is the only thing—and I would not go below 1*s.* 4*d.*

6700. With the manner of his doing it you do not find any fault?—No. I have no fault to find.

6701. Nor do you find any fault with the lending of money in this country?—No, I have found no fault with that.

6702. Nor do you complain of the rapidity of the increase of the note circulation, which has increased about 400 per cent. since 1890?—I advocate an increase of the circulation of currency notes, as far as possible.

6703. Up to now there has been a rapid increase. There has been an increase of 400 per cent. since 1890, of 100 per cent. since 1903, and of 50 per cent. since 1905. You say that the chief cause of the great fluctuation is the inelasticity of the currency, accentuated by the withdrawal from the active currency by Government of vast sums just at the season of the year when the movement of the crops demands an increase; and that in this season, with an 8 per cent. bank rate ruling in three presidencies, no less than 20 crores, or 13½ millions, were so withheld from the market. Indian currency notes are issued on the same lines as notes of the Bank of England, are they not?—That is so.

6704. Against fiduciary security?—It is a fixed fiduciary issue.

6705. Suppose the Government of India had thrown into the market this year about 5 crores to lend in the busy season, I do not think you would have seen

8 per cent., would you?—You would not have seen 8 per cent.

6706. That is the only reason, I think, which you gave for a State Bank, so far as I could follow it. If the seasonal demand for money, and the seasonal ruling of a high bank rate is the only cause, then, of course, we ought to ask Government to lend money out like other countries?—If that were done it would relieve the situation, but it would not meet everything.

6707. Why have a great superstructure for such a small point as the reduction of the bank rate during the busy season—a bank rate that rules for five months, I think?—As a rule.

6708. Do you know that before 1867 there were three State Banks in miniature?—How do you mean?

6709. The Government had shares in three banks?—Yes, the Government had shares in banks.

6710. And the Government had directors on the board?—Yes, that was so.

6711. The old Bank of Bombay had two millions of capital, but it was put into liquidation?—That is so.

6712. And although the distribution to the Bank of Bombay shareholders came to 117 rupees only, the Bank of Bengal offered the shareholders 500 rupees to induce them to amalgamate with the Bank of Bengal, and an amalgamation resolution was carried?—That is so.

6713. But the Bombay mercantile people created a great opposition to that, and would not have an amalgamation, and they carried deputation after deputation to the Bombay Government; is that not so?—I am afraid that I am not up in this ancient history.

6714. I am taking you into the history of the State Bank. You will find that that resolution was rescinded; notwithstanding the fact that the shareholders would have got four times the money they ultimately got, the Bombay people would not have the amalgamation, and they only got 117 rupees, while the Bank of Bengal offered 500 rupees. That was due to provincial jealousy, and, as you know, there is a great provincial jealousy between Bombay and Calcutta?—Yes, I am aware of that.

6715. Do you know that, in consequence of the fact that there were Government directors on the Board, the shareholders petitioned to this country to have their money given back to them by the Government, because they alleged the Government was responsible?—No, I do not know that.

6716. There was a motion brought forward in the House of Commons by Mr. Mill for the restitution of the money on the grounds that Government directors were on the Board, that it was done with their sanction, and that the Government were really responsible to the shareholders. That motion was lost by a very small majority. I suppose you want Government directors on the board of your proposed State Bank?—No, I have not said that I want them. I presume that as Government would have a big stake they would want representation on the board, but I do not think, so far as the Bank is concerned, it would be essential. It is merely a matter for the Government, having such a big stake, to say what control they require.

6717. The Government has been for so many years declining to lend any money for trade; do you think, therefore, they will open up all their treasuries to a State Bank without some sort of guarantee or scrutiny or supervision?—No; I certainly think they would require some scrutiny or supervision, but that might be met by their having their own auditors.

6718. What would the Government directors know about commercial credits?—They would only have a general knowledge of the business which the bank was conducting, and that it was being well managed and undue risks were not being taken.

6719. If a State Bank were established and Government directors were on the Board, then, if anything were to go wrong, would not the Government directors be again held responsible for the losses, just as the Bank of Bombay shareholders tried years ago to make them responsible for losses, and only failed by a narrow majority in the House of Commons?—They would be equally responsible with the other directors, undoubtedly; but beyond that they would carry no further responsibility.

6720. When the Government directors come on the board, which representative of the State Department would you like to have on the Board, the Comptroller-General?—Someone from the Finance Department, speaking generally.

6721. When a man in the State service becomes Comptroller-General, he remains only a short period in his office, because he has reached the stage when only something like 5 or 7 years have to elapse before his period of service expires?—That is so; but then the Government directors, assuming they were appointed, would not be there really to take a very active part in the direction of the Bank. They would be there more to watch the interests of the Government.

6722. So it would be a responsibility without control?—Without any detailed control.

6723. How would you form the State Bank—by amalgamation?—By the amalgamation of the three Presidency banks and the issue of fresh capital.

6724. If the Bank of Bengal owns two-thirds of the share capital as compared with the Bank of Bombay and the Bank of Madras, I suppose the directorate selected would be the Bengal directorate?—There would be local boards. But these are details, and I have not prepared a detailed scheme for your consideration.

6725. A State Bank is very nice, and all that, it is a very grand thing, but let us go to the details, and let see how we can reconcile the details in India. The details of such things can be settled in France by herself or in England by herself; but let us see what is required for India. I would like to have from you your idea of the composition of the board of directors? Of course, the board of directors would be appointed by the shareholders, and the Bank of Bengal shareholders having, therefore, the majority could choose directors from among themselves, unless you want to make some provision for Bombay directors, or anything like that?—You would naturally have a provision that the local boards should consist of local men.

6726. I understand about the local boards, but I am talking just now of the Board of the Central Bank?—It would be possible to have a scheme whereby through the local boards the shareholders of the Bank of Bombay and the Bank of Madras are represented on the Central Board.

6727. I suppose any local board would be formed by the direction of the Central Board?—Not necessarily.

6728. Is it not the shareholders' property, unless the Goverment have a State Bank of their own?—Yes, it is; and the local boards would be drawn solely from representatives of the locality.

6729. I contend that the majority of the shareholders would be Bengal shareholders, that is, if the shareholders are given shares *pro rata* according to the present capital; and, therefore, Bengal or Calcutta will be able to appoint the full board by election?—There is no reason why representatives should not come on the Central Board from the other localities. There may be a provision that one member should come from Bombay, one member from Madras, one member from Rangoon, one member from Cawnpore, and so on, so that all the principal districts could be represented on the Central Board.

6730. Is there a bank or any other institution that has this method of selecting its directors? Is it not quite a new method?—Even assuming there is no other instance, that is no reason why a precedent should not be created.

6731. You really have to revolutionize the whole company system in order to do it?—It requires a special constitution, undoubtedly.

6732. The shareholders would have no control over it in the selection of their own directors?—Within certain limits they would have control.

6733. You do not tell us how the directorate would be formed, or who will appoint the Committee to work it at Madras, or the committee to work it at Bombay, or the committee to work it at Karachi, or the committee to work it at Lahore. Who would appoint those committees?—As I say, I have not

worked out a detailed scheme, and I have only suggested the principle that at this stage it is worthy of consideration whether the formation of a Central Bank is not desirable.

6734. We stumble at the very beginning in the formation of the board. How will the Government share in the election of the board?—They will probably have the right to nominate certain of the directors.

6735. To nominate their own directors?—Yes.

6736. That is to say, to nominate their own servants?—Yes, if they decide that they desire to be represented on the directorate. As I say, it is not essential that they should be; it is only on account of the large stake that they would have in the Bank that they might wish to have the control. They might, as I suggest, do so by having their own special audit.

6737. Probably the Government would put the work in the hands of their servants, the Comptroller General, for instance, because if the Government appoint anyone at all it must be someone from the Finance Department, which is the only Department with any experience of banking and bankers?—Probably they would select from people in the Finance Department.

6738. Suppose they waived the appointment of Directors, do you think they would give up all the treasuries to a State Bank over which they would have no control?—I cannot say what the Government will do.

6739. We will suppose that a board is appointed and that the majority, in the common way, until the laws relating to joint stock companies are changed, is composed of Bengalis; then I suppose the directors will appoint a committee at Madras to work that portion of the State Bank?—Presumably there will be a local board in Bombay and a local board in Madras.

6740. Will they have power to lend to people known to them in Bombay without any supervision or central control?—It will be necessary for the local boards to have very large powers, but undoubtedly the Central Board must retain the power of veto.

6741. Do you not think it would be a very awkward thing to veto Bombay credits? Do you think Bombay would submit to that?—I do not see that there is anything very outrageous in the suggestion. If you take the large joint stock banks in England, they have local boards in various centres, and I do not speak with authority, but I presume that those local boards are subject to the veto of the Central Board.

6742. They are subject to central supervision?—Yes.

6743. How many European directors have you on your Bank?—Seven.

6744. And how many native directors?—There are none.

6745. Perhaps you know that the same would be the case in a Central Bank. How many directors are there now who have been on the board for five years, say? Or I will put it in this way: Of the seven European directors that you have had in the Bank of Madras during the last five years, how many have left on furlough or have come back to England and left India altogether?—The Directors are constantly changing.

6746. I suppose the European directors who come on the board are generally the heads of their firms?—Generally they are.

6747. So they come on the board at about the time when they take their furlough every year or every second year?—No, not so often as that, as a general rule. It is usually every third year.

6748. How often do you take your furlough yourself?—Perhaps once in five years.

6749. It is not like the Bank of France and the Bank of England; you do not continue with the same Directors?—That is so. But when I personally take my furlough, my second in command knows the business just as well as I do, and he knows exactly my views. So when the second partner in a firm succeeds his senior partner in the directorate, he has often been on the board before, and he is not coming into something entirely new.

6750. It will come to this, that the Governor, that is, the Secretary and Treasurer of the State Bank, would alone be occupied in dispensing the native credits, unless you employed some great baboo who would dispense those credits?—I do not think we should be quite so out of touch as you suppose. Naturally a board must to a very large extent be influenced by the head of the Executive who has all the details before him.

6751. But really the entire control of the whole of India would be in the hands of the Governor of the Bank?—He would certainly have a large influence, but I would not go so far as to say he would have the entire control. Each bank manager would have very great powers.

6752. The Government's nominee on the Board could not have any control over the credits if the Bank is to support the trade of the country?—Naturally, Government directors could not interfere in such small details as what amount of credit any individual person was to receive. They would have to be guided by the executive officers.

6753. The Governor will be the sole possible judge of the credits given in Bombay, the credits given in Lahore, and the credits given in Madras?—By "Governor" do I understand you to mean the senior executive official?

6754. Yes?—He would undoubtedly have the power of veto as he has now in a smaller concern; but individual branch managers have very large powers with regard to their localities; the man on the spot must have large powers.

6755. Do you not think, looking at all this, that it is not within one man's power to supervise the management of a State bank?—I do not see that there is any very great difference in it from what is done at present. You have got your different spheres of influence; you have got the Bank of Bengal sphere, the Bank of Madras sphere, and the Bank of Bombay sphere; they are at present directed by the local boards, and they would continue to be.

6756. I know there are spheres?—The fear of the central board vetoing in Calcutta any credit proposed to be given in Bombay is very unlikely, unless it was in the interests of the bank. There should be no jealousy between one quarter and another. The business should be carried on for the benefit of the bank as a whole, and if the trade of Bombay requires financing, and it is to the interests of the bank as a whole, Bombay would get the finance.

6757. The State Bank would have the dispensation of proper credits all over India?—I would say so.

6758. And they would be guided by their managers, who may be sent from one place to another just as they are now?—Quite so.

6759. Do you know that even now the bills that are discounted in Bombay are bills of people who are known in Bombay, and the bills that are discounted in Calcutta are bills of people who are known in Calcutta?—I do not follow your question.

6760. Even now, with the centralised Presidency Banks there is a difficulty in dispensing credits up-country in the case of people not known at the bank, as at the bank they have to take their information from European officers and it is a European board that has to act. Perhaps, therefore, the natives do not get the credits they really want, which in the case of a State bank it would be necessary they should have. What, would you say, do the directors know now about Pondicherry or any of those places? Do they give credits there?—Naturally they do.

6761. What supervision can they have over those credits?—Naturally they cannot go into details. They can only direct the general policy.

6762. Did not the Bank of Madras lose large amounts in Ceylon some time ago?—I think it would be very extraordinary if a bank did not lose occasionally.

6763. If all this happens in the comparatively small case of a Presidency Bank, how would it be if you were superintending the vast credits of India through European directors?—If the work is too large for the

Central Board the remedy is to create more local boards; but at present the number of branches, if you take the amalgamated Presidency Banks, is quite small.

6764. Turning to another point, do you mean to say that the Government should lose their profits on the circulation, and give up the control of the large sums in the paper currency?—With regard to the profits on the circulation, I naturally suppose that if it is handed over to the proposed bank, the Government would expect to receive remuneration on an average of what their profits had been for the last two or three years.

6765. Do you think that if the Government handed it over to the State Bank, the Currency Department would not have work to do?—So far as the Currency Department is concerned, they would cease entirely. With regard to the Treasuries, in all probability they could reduce their staffs slightly as the Bank took over the work—not entirely, because the head officer of the Treasury has other considerable duties to perform in addition to the actual Treasury work, and probably it would give him more time to attend to those other duties.

6766. There would be no reduction of expenditure, anyhow, in the Government of India's Department because of the State Bank?—There would, so far as the Currency Department is concerned.

6767. Could they dispense with the services of the Comptroller-General, of the accountants in the Presidencies, and of the other superior officers who supervise these banks, because under the proposed arrangement the Central Bank would supervise?—They cannot dispense with the accountants-general, because they have other entirely different duties to perform as well as looking after the Currency and the Reserve Treasuries.

6768. Would there be any economy in the Secretary of State's Department here, because the sale of Council bills is given over to the State Bank?—I should not think the economy is worth considering.

6769. So on the whole a State Bank means that the Government, according to your idea, might put about six millions or four millions into the Bank and make their officers responsible for work which they do not know anything about?—As I have said before, I do not suggest that the Government directors are essential.

6770. In that case, the Government might be bound on a motion in Parliament to provide for the restitution of the shareholders' money. That was attempted to be done, as I have mentioned, through Mr. Mill, but he lost by a narrow majority, otherwise the Government of that day would have had to pay the money?—I do not admit that, because there are Government directors of the Bank, the Government itself would be responsible.

6771. Why have you no native directors to give you some idea of the credits of the men in your Presidency; natives are shareholders?—A large proportion of the shares of the Bank of Madras are held by Europeans, and no native directors have been appointed by the shareholders; in fact, I do not think that there has been—certainly not within my recollection—a native director proposed.

6772. Have these directors a large interest in shares, or are their interests nominal?—As a rule?

6773. Have they 20 or 30 shares only, and is it sometimes said they have got those shares after appointment?—The directors have naturally to hold their qualifying shares; beyond that I do not think I am entitled to say how many shares they hold.

6774. Would you compare a State Bank in India with the Bank of France, the Bank of Germany, the Bank of England, and so on?—I admit that banking in India is not so fully developed. My object is so far as possible to develop India, and I think the time has now come for a step forward.

6775. If you take the governments in civilised countries, the taxes go to the banks and everything appears on the table, and the government are more indebted to the banks than the banks are trying to get any money from them. For instance, the last account shows that there is 10 millions belonging to the State in the Bank of England, but the State has a debt of 11 millions to the Bank, so there is not much lending there. You want the Government of India to lend to the Bank 25 to 30 crores?—The State here may be indebted to the Bank of England, but on the other hand the Presidency Banks have large holdings of Government paper which, in other words, is a Government debt. I daresay there may be a difference from the legal point of view, and if anything happened to the Bank of England there might be the power of set off which, in the case of the Government paper held in the Presidency Banks, there would not be; but I do not see that that is an insurmountable difficulty, either.

6776. So you see there is no comparison. It is the same with the Bank of Germany and the Bank of France; they have State accounts, and they write them off by indebtedness to the banks. But this State Bank will be quite different, will it not?—In so far as there would not be the power of set off by the present holdings of the banks in Government paper which they hold instead of a specific debt.

6777. Knowing the way the Government of India works, the banks will add about double the money of the Government of India to their own capital?—I am quite aware that the Government of India might raise objections, but as to what their objections will be and how far they can be met it is impossible for me to say. My hope is that they will take a broad view and consider what is beneficial to the country. It will be right to take a certain amount of risk.

6778. Would you also have a branch in London of that Central Bank or State Bank?—I should say that would be an essential part.

6779. What position would that branch occupy?—That branch would be a very important one, and it would be essential that there should be a local board in London.

6780. Would it lend money?—It would both lend and borrow money. It would carry out exchange transactions on behalf of the Government between India and Europe.

6781. A State Bank does not borrow money?—A bank's business is entirely borrowing on the one side, and lending on the other.

6782. The Bank of France does not borrow and the Bank of England does not borrow?—Your deposits are borrowings.

6783. Of course they borrow in a way?—I have a very vivid recollection of the Bank of England in 1891 borrowing three millions from France.

6784. Suppose you borrow in London for six months or a year; if you borrow for six months and then repay, it will cost you 3 per cent. more than the Indian rate, and if you borrow for 12 months it will cost you 1½ per cent. more for the remittances?—Naturally you would not borrow in London if you could borrow in India cheaper.

6785. That would be exchange business on a very large scale?—I do not quite follow the question.

6786. If you borrow in London for India, you would have to remit that money, would you not?—Yes, you would.

6787. And you would have to bring that money back when you repaid it?—Yes.

6788. If you have to get that money back in a crisis, the exchange will go against you?—If a crisis happens and you have suddenly to remit very large sums from India to London—and I assume the crisis is in London, that you have got money out in India and that you want to get it back to London—undoubtedly it might affect exchange. But if the bank is working the exchange business on behalf of the Government, they would have very large accumulations of gold in the currency reserve, which is ear-marked in London, and it would be a very simple operation to increase your silver reserve in India and release the gold in England without any loss on exchange.

6789. That will to some extent wipe out the exchange banks who are doing that business; and they have a certain sort of claim on the Government of India?—I think in the previous part of my evidence I distinctly stated that the interest of the exchange banks was not to be interfered with, and that any exchange business the central bank did would be restricted to re-discounting the exchange banks' bills and selling on India, or *vice versâ*; in other words, it would simply be acting as the agent of Government for the sale of council bills.

6790. It would be doing all that work with the view of profit for its shareholders?—It would not be to the detriment of the shareholders.

6791. But it would be a much larger institution?—It would be a very much larger institution. My chief object is the development of India generally.

6792. If you borrow or sell 25 or 30 millions, do you think that would be such a small operation that it would not wipe out the exchange banks who have now control of that business?—You are putting rather a hypothetical case which I do not admit in practice will ever come about, namely, that the State bank would borrow 25 millions in London.

6793. Would you auction the bills?—No, my suggestion was that they should be sold at a fixed price.

6794. Would that be fair to the exchange banks?—I do not see how that would be interfering with the exchange banks.

6795. If you were to remit your own money to and from India by the auction of the bills, I can understand that the exchange banks might have some chance, but if you are to have the power of appropriating to yourself the Secretary of State's bills, and bid for your own requirements at rates of your own making, the exchange banks would certainly be wiped out?—It would not be interfering with the exchange banks' business.

6796. Will the London branch be under the control of the Bank of Calcutta, or will the London branch be the central office?—My idea is that the head office of the Central Board should be in India, not in England.

6797. Then the branch in England would be subordinate to the Central Bank in India?—It would naturally have very large powers.

6798. Would the Secretary of State have no voice in it?—I presume the Secretary of State would have no actual control, but if the Government desire to be represented on all the boards, there is no reason why there should not be a representative on the London board as well as on the local boards in India.

6799. Is it the idea that a State bank will help industries and agriculture?—Yes.

6800. How can a State bank help agriculture?—Indirectly, by developing credit generally all round.

6801. How will you actively assist agriculture?—Indirectly.

6802. Will you lend to agriculturists?—Yes, I would lend to agriculturists; I do now.

6803. That would mean very small bills, would it not?—They are naturally small bills on the security of their produce. When the harvest season comes on, they bring their produce in and put it in store under the bank's control, and they get an advance on it.

6804. Who will advise you as to the credit of the small agriculturist; who, in the district itself, would know him?—We have means of finding out the position of the agriculturist. There are title deeds and registration offices where you can find if there is any encumbrance. It is done in practice now.

6805. How will it help in increasing the note circulation if it is in the hands of a private bank? Do you know that in India a private bank or a central bank will be treated with suspicion, whereas the Government is not treated with suspicion; and that there is a greater chance of increasing circulation under Government than under a central bank? What experience have you which supports your view that the central bank's note circulation will grow with greater rapidity than a circulation through the Government?—In my opinion the banks have more opportunities of inducing merchants and others to work by currency notes than Government have. Banks are more in touch with those people, and by having a large number of branches all over the country where these notes would be readily received, they could do a great deal.

6806. Do you think a central bank could induce people to take notes in India?—I think so.

6807. Do you think merchants would take the notes of the bank in preference to Government notes?—I do not go so far as to say that they would prefer the bank's notes to Government notes; but I do not look to any appreciable decrease in the circulation of the notes simply because there has been a transfer from Government to a central bank.

6808. For public works I think you can borrow more money in India now?—Do you mean for Government loans, or railway loans?

6809. For railways and canals?—Undoubtedly, owing to the rising prosperity in India, there is more money available for investment in such securities.

6810. The Government has lent about three or four crores to several municipalities?—Yes, and to port trusts.

6811. But the last loan of three crores has been exhausted, and there is a backwardation of prices?—That is not shown so far as the price is concerned. The last loan, as far as I can remember, went at about 96·2, and the last quotation I saw from Bombay was just about the same rate.

6812. Do you know that they cannot deliver the paper they have sold, and that they have to pay backwardation on it, as it is called?—Of course it might happen under any circumstances that a speculator would be found short.

6813. I think Government could borrow about half of what is required for public works through these Indian loans; what do you say?—I think they might be able to do it in one year. I think they might increase the amount of the loan, provided there was some understanding that in the height of the busy season the balances in the reserve treasury which they were accumulating, would be available for advances. Undoubtedly the banks could carry very much heavier holdings of Government securities and other authorised securities, if there were an outlet such as that, and if there were also further powers of access to London in times of stress.

6814. As you know, you have brought back in the last five or six years rupee paper from England to India?—Yes, that is true.

6815. I think in the last four or five years we have bought rupee paper in London here and taken it to India to the extent of about 14, 15, or 16 crores?—Not quite so much as that. It was about 24 crores, was it not?

6816. It is now about 14 or 13 crores?—At present it is rather less than that. The holding in London is now about 12 crores, and I think some years ago it was as high as 24 crores.

6817. They could not float the same loans here at 86 or 87 now, could they?—I know that to my sorrow.

6818. If they needed money and they raised the interest to 4 per cent., or anything like that, they could have large sums floated in India, could they not?—Undoubtedly, if you raise the rate you ought to be able to float larger loans; but I think it would be hardly fair to the present holders of Government paper to depreciate the present holdings of 3½ per cent., it would only be in very extreme cases that that would be justifiable.

6819. (*Sir James Begbie.*) You favour the Council Bill system, not only for providing the Secretary of State with funds, but also to meet the requirements of trade?—Yes.

6820. The trade you refer to is, I fancy, the foreign trade?—Yes.

6821. But the foreign trade is only a part of the internal trade, is it not?—The foreign trade is only a part of the total trade.

6822. The Council Bill system involves the holding up in India of the surplus Treasury balances, does it not?—Under the way it at present works it involves that by the collection of the revenue into the central

treasuries in preparation to meet the Council Bills that will be afterwards drawn.

6823. I think you agree that that practice helps to bring about the high rates of interest which prevail in India at certain periods of the year?—Yes.

6824. And is, therefore, disadvantageous for the internal trade?—It is disadvantageous.

6825. If the surplus Treasury balances are lent in India to prevent those high rates, the money cannot be available for Council drafts; and *vice versâ*, if held to meet Council drafts the money cannot be used to help the internal trade, that is, it cannot be used to give loans?—As at present constituted that is so. That is one of my strong arguments in favour of a Central Bank with a London office, because it would simply be a transference then of funds from the Indian branch of the bank to the London branch, and if actual currency is short in India it would only then be necessary to indent upon London gold to put into the currency reserve here and to withdraw it in India. But that would not take effect except as the very last resort. The Secretary of State's balances, which would be accumulating in the London office, would be practically available for the London market, because the Central Bank's reserve would be with the Bank of England.

6826. As at present conducted, it is a question, is it not, whether more consideration is due by Government to the business of the foreign trade than to that of the internal trade?—That is so.

6827. You also favour the Council Bill system with the object of reducing the movement of gold coin from Europe to India?—That is so.

6828. Does that apply also to bills sold for the purpose of restricting the imports of gold from Australia and Egypt? I ask the question because you mentioned specially the sending of gold coin from Europe to India?—It would perhaps be difficult to fix a rate that would prevent certainly Australian gold from coming in, unless you were to fix a very low rate.

6829. Your object is to prevent gold coin coming into India?—To prevent unnecessary gold coin being withdrawn from London at times of pressure, as I hold that a tight money market in London reacts on the Indian export trade.

6830. Your object is to prevent disturbance of the London money market?—That is my chief object.

6831. You propose to achieve that by sales of bills in London to the extent that would be sufficient for that object?—Yes.

6832. Would that prevent all possibility of disturbance to the London money market, do you think?—It would not prevent all possibility of disturbance, but it would mitigate it. If you have Egypt and other places calling for large quantities of gold, and if India comes into the balance as well, that increases the difficulty, certainly.

6833. If you sell bills in London, to a great extent that means, does it not, that you must sooner or later buy silver for coinage?—It will mean that, if the silver balances in India have run low.

6834. If you sell bills in England for the purchase of silver, does not that merely transfer the demand for gold in London from India to some other country?—If the balance of trade has to be paid for by London, it might mean the withdrawal of actual gold from the market.

6835. The effect would be that, instead of India wanting the gold, some other country would want the gold?—Not exactly that they would want the gold. They might pay off the obligations that they had in London.

6836. Still, the gold would be due to them, whether they took it or not?—A certain sum would be due to them. The gold might be withdrawn, I admit, but the probability is that they would be paying off another obligation or using it for investment in London generally.

6837. You say gold is only preferable to silver as currency because it is more portable?—I referred there to India. There is really no demand for gold as currency from the people there generally, and it is a case of more or less persuading them to take it; but once they have got the taste for it, they will continue to demand it.

6838. Would you not say that if gold formed a substantial portion of the metallic currency in India, it would have greater advantages than mere portability?—I do not think there is any great advantage

6839. In the case of an adverse balance of trade, for example?—I do not think in the case of an adverse balance of trade, unless the proportion of gold in active circulation was very much larger than silver, that much of the gold would come back again.

6840. (*Sir Robert Chalmers.*) Would it even then?—I am not prepared to say that it would.

6841. (*Sir James Begbie.*) You gave some figures relating to the Presidency Banks; these show a great increase in resources in the last 15 years?—That is so.

6842. Can it be said that these banks actively promoted that increase?—I think they have done everything in their power to promote the trade of the country and to develop their banks.

6843. To meet trade demands and to prevent a high rate of discount?—They have done everything they can.

6844. You agree, I think, that it is not their fault that periods of high rates of interest recur?—It is certainly not their fault.

6845. Regarding a centralised bank you would include, I understand, the whole of the Treasury balances in India and in London?—That is so.

6846. Also the paper currency reserve?—Yes.

6847. And the gold standard reserve?—No, the gold standard reserve would remain separate.

6848. It would not be included with this?—It would not be included in the bank's holding.

6849. If these balances were combined with the cash reserves of the Presidency Banks in one balance sheet, it would show a position of considerable strength, would it not?—It would show a position of great strength.

6850. Do you think a better idea could be formed of the financial strength of India from the balance sheet than from the same reserves isolated and distributed as they now are?—It would be more apparent.

6851. Would such a balance sheet affect the general credit of the Government of India in the eyes of the world generally?—I do not think it would affect the credit of the Government of India.

6852. Would it not improve the credit?—I do not think it would have any great effect upon the credit of the Government of India. As far as I know, the Government of India's credit is unquestioned at present.

6853. Under the scheme you outline you would look for smaller fluctuations in the discount rates?—I do look for smaller fluctuations in the discount rates.

6854. And a lower maximum?—And a lower maximum.

6855. Would that be an advantage to the trade of India generally?—That would be a very great advantage, in my opinion, to the trade of India generally.

6856. (*Mr. Gillan.*) What are these gold bars that come to India at present; I am told that they are refined and polished?—I understand so.

6857. (*Sir Robert Chalmers.*) Are they not 10-oz. bars from the Australian mints in the main?—To a certain extent; and from London, too, I understand. I may say that I do not profess to have a very great knowledge of this, because there is very little direct import of gold into Madras; it all comes through Bombay.

6858. (*Mr. Gillan.*) What I want to put to you—I do not know whether you have any knowledge of the subject—is, whether it is true that they might be described as a sort of fancy article going at rather a fancy price?—Not that I am aware of.

6859. They are manufactured in a sense; they are not rough bar gold, are they?—No.

6860. They are not the sort of gold that probably would go to a mint?—No. But so far as I know, they are not sold at any fancy price. There are certain marks that carry a slightly higher price than others.

6861. (*Lord Faber.*) Do I understand you to say that these bars imported from Australia and from

England in the condition we have just had mentioned to us, would not go to a mint if there was one?—If there was a mint my suggestion is that so long as sovereigns are legal tender there would be no object in importing bars in preference to sovereigns.

6862. But you do not really think that these bars are fancy articles because they are polished, and so on, do you?—No, I do not. These bars are imported very largely for ornaments, and, in fact, so are sovereigns very largely used for that purpose. I know in one small village in our Presidency they take between 300 and 400 sovereigns a week from Bombay, which are melted down immediately and manufactured into an imitation coin representing the old 5-franc piece, which is very popular as an ornament for a necklace. These imitation 5-franc pieces are not counterfeit coins, because while they have the head on one side, on the other side they are blank.

6863. (*Mr. Gillan.*) In the same connection you have mentioned South Africa, and I do not quite understand this remark of yours—you say the exports from India to Africa are negligible?—That is so.

6864. But there is a trade done there, because there are steamers going from India to South Africa?—That is so.

6865. What do they carry?—They carry various Indian produce.

6866. You mean that it is on a small scale?—Yes; it is not sufficient to take into serious consideration for repayment in gold.

6867. What do those steamers bring back from South Africa—I am told they bring back very little?—It is, so far as I am aware, very little.

6868. Would it not be worth the while of these steamer companies to offer very low freights to take the gold to India?—I believe it would.

6869. Then you think it is quite conceivable that you might have gold going to India?—Quite.

6870. In fact, do you think it might reach a pitch which would be inconvenient?—It might.

6871. Is that what you claim—that if it is possible at all it would be so?—If gold can be brought profitably from South Africa, then that gold would come until the exchange was knocked down to such an extent that it would be more profitable to send it round the old course.

6872. In regard to Council Bills I am not sure that I understood you properly in your reply to the Chairman yesterday. I think you said that the interests of trade were a more important factor than Government interests; is that so?—It seems to me that at present the functions of Council Bills are more important with reference to trade generally.

6873. The position is this, is it not, that the Secretary of State, having money in India, wants it at home?—He might require money at home.

6874. And a good many other people who have money here in London want it in India?—That is so.

6875. The Secretary of State and those other people simply exchange obligations?—That is so, up to a certain point.

6876. That being so, can he take money in London from those other people which he does not want here and pay out money in India, which *ex hypothesi* he requires there?—I think that that can be done through the Currency Reserve.

6877. Do you think that that is the proper thing for the Secretary of State to do?—I think that under the circumstances it is desirable, in order, as I have said, to avoid the withdrawal of large quantities of gold from the London money market, which would immediately react upon the export trade of India.

6878. I put it to you that the question is really one of the distribution of the Secretary of State's funds according to requirements, and that the advantage to trade is incidental; but you do not accept that?—I do not accept that with the closed mints. If the mints were again open to silver it would be a different matter.

6879. (*Chairman.*) You do not recommend the reopening of the mints, do you?—No, certainly not.

6880. (*Sir Robert Chalmers.*) Does anyone in India?—I have heard it.

6881. A voice crying in the wilderness?—Yes.

6882. (*Mr. Gillan.*) I think you recommended that Council Bills should not be sold at less than 1*s.* 4*d.*?—Yes.

6883. As a practical question, would you now at the present moment stop the sale of Council Bills?—Yes, I should stop it.

6884. Probably, then, the stoppage of these sales would continue for the next few months?—It might.

6885. Meantime, how would the Secretary of State supply himself?—If he has any need of funds, if his balance here is low, he would do it through the Currency Reserve. You have many millions in London at present, so you could release gold here and put silver into the Currency Reserve in India.

6886. I thought yesterday you mentioned the Gold Standard Reserve?—I think I said the first operation should be to release gold from the Currency Reserve.

6887. In any case the Secretary of State is then reducing his sterling resources?—He is.

6888. Do you think that is a wise thing to do, in view of the possibility of a failure of rain?—So far as I can see, eventually it will make no difference. It is only that he has anticipated the sales by a short time. Selling Council Bills below 1*s.* 4*d.* indicates that there is no real demand. It will not affect the balance of trade eventually. The balance of trade has got to be met by Government unless they throw up the sponge, and it is easier to keep exchange steady than it is to bring it back again once it has dropped. My object is not to let it drop.

6889. It comes very much to the point Mr. Keynes put to you yesterday, that you consider the Secretary of State is now in such a strong position that he can afford to attempt this mechanism of a higher exchange than hitherto; that is to say, he lets it drop now to 1*s.* $3\frac{29}{32}$*d.*, but he can afford to keep it up to 1*s.* 4*d.*?—That is so.

6890. The general position of the Indian money market is, is it not, that you have almost what you may describe as a plethora of all-the-year-round money and a temporary strain in the cold weather?—No; I think I should put it that the plethora is for quite a short time.

6891. What do you pay for your deposits?—I pay 4 per cent. for all the year round, and in what I call the slack seasons I will not receive short deposits.

6892. I am speaking of 12 months' deposits; you pay 4 per cent. there?—Yes.

6893. Do the other Presidency banks pay so much? I think the Bank of Bengal does not.

6894. Probably it pays less?—I know the Bank of Bengal pays less; they pay $3\frac{1}{2}$.

6895. Is it within your knowledge that any of them have been turning away deposits?—It is not within my actual knowledge, but I have heard that deposits requiring higher rates have been refused.

6896. Supposing the giving out of Government balances was to reduce the rate of money in the cold weather, your deposits would be earning less then, would they not?—It is possible that the result would be a reduction in the rate of interest allowed.

6897. It might be possible?—It might; but I rather think that trade would develop the outlet for it, and that we would still be able to pay the 4 per cent.

6898. (*Lord Faber.*) Of course, coming into the market with a big deposit must necessarily knock down the price of money?—It would knock down the price of money.

6899. (*Mr. Gillan.*) What is stringency due to? There is a need of money to finance the crops, and you say there is a withdrawal of money by Government?—From active circulation.

6900. Are those in your opinion the only two factors?—Those are the main factors.

6901. Could you have a stringency, we will say, in a time of indifferent or insufficient crops?—It is unlikely.

6902. How is this extra demand that comes in cold weather met? I presume you employ your deposits to a much larger extent than in the off-season?—That is so.

6903. That is one thing. Are there any local resources?—There are no other local resources.

6904. Only the deposits at the Presidency Banks?—For trade generally?

6905. Yes?—There are the exchange banks. They do to a certain extent finance the local trade. Then there are the native bankers.

6906. I suppose the other banks are really in the same position as you? They have been holding up a lot of money, and then taking that out and using it in the cold weather?—In the busy season.

6907. What do the exchange banks contribute? You have got all this money in India that has been lying idle say for a considerable part of the year, and that is brought out and used; do the exchange banks bring in some from outside?—They bring in to a certain extent from London.

6908. We have been told that there is a sort of hiatus between the time when money has to be taken out to finance the crops and the time when the money comes back through Council Bills; that is what you said yesterday, I think?—That is what I said.

6909. Do the exchange banks not, as a matter of fact, anticipate, if I may say so?—No, I do not think they do anticipate.

6910. There are no finance bills in India, are there?—I think not.

6911. They are drawn actually against produce?—They are drawn against produce, so far as I am aware.

6912. As regards the general relations of the Indian and English money markets, I think a witness told us that there was very little of such transfer of funds between the two countries which influenced the bank-rate as generally happens between any other two countries; is that your opinion?—That is my opinion.

6913. Then why is it that there seems to be so little interchange of capital, that is to say, why does not more go into India when you have a very high rate, and why does it not flow out when it is not usable in India?—There are two factors—there is the fear of the loss on exchange, and I think there is not the machinery. The exchange banks have not got many branches throughout the country, and their business is largely in financing the crops when they are ready for export.

6914. I take it the ruling factor is still this risk of variation in the exchange?—That has a great deal to do with it.

6915. That is the chief factor?—I think so.

6916. (*Lord Faber.*) Is the variation in exchange enough to prevent money flowing into a country where the interest is very high, from a cheap country?—If the rate of interest is high for a short period only?

6917. Yes?—If money was brought in to any large amount, the rates of interest would immediately fall.

6918. It is not a big enough country to get an average high rate of interest?—I think not.

6919. (*Sir Shapurji Broacha.*) And the cost of bringing it has also to be taken into consideration?—Yes.

6920. (*Mr. Gillan.*) What happens to this money in the country? How far down, so to speak, does the money get? Consider the cultivator; what sort of interest do you suppose he is paying for the money he gets?—He pays a very high rate of interest—up to 18 per cent. perhaps.

6921. Not more than that?—I do not think a large cultivator would. A very small cultivator would probably pay very much higher.

6922. Is that inevitable under the conditions under which those loans are made, or is it due to some separation in the money markets of India which prevents the money getting down to the country?—I think it is largely due to want of competition by large institutions, which would enable the cultivator to get financed cheaper. At present he is very much in the hands of the local moneylender.

6923. Does the money get down from the central markets into the hands of these local moneylenders?—Indirectly it does.

6924. Is there any channel of communication?—The channel of communication is through the native bankers.

6925. I think you mentioned co-operative credit societies yesterday?—They were mentioned.

6926. Have you had anything to do with the financing of them?—To a small extent through the central bank in Madras. The rural banks borrow from the urban banks, the urban banks borrow from the central bank on promissory notes, and the Bank of Madras to a certain extent opens credits for the central bank.

6927. Have you developed cash credits in connection with these co-operative banking societies?—Yes.

6928. In connection with this question of the central bank a good deal of stress has been laid in the old correspondence on the restrictions of the powers of the Presidency banks. It was pointed out that there was no elasticity of funds or resources in case of stringency, and that when it is required to raise money in India there was no one else likely to be in a position to find the money; I presume that is so?—That is so.

6929. Government would not undertake to lend, and they cannot borrow in London; that was the case which was put. Would this need of elasticity in case of crisis or scarcity be sufficiently met by the proposal to give loans from the Treasuries or from the paper currency, or would a resort to London still be necessary?—A resort to London would be desirable.

6930. Do you think the situation is not sufficiently met by these loans which are proposed from Government funds?—It is conceivable that the Government balance would be very low, and that the notes also had gone down and would not be very much available for exchange. There is nothing gained by closing the outlet to London.

6931. On this question of bringing any money from London, can the exchange banks not bring out all that is required? I want to bring to notice in that connection a letter that was written from the Bank of Madras in 1903.* It is a letter written by Mr. Ker. He said: "The directors wish to say that owing to "the growing confidence in the fixity of exchange, "money finds its way to India when required through "so many other channels that there is not any of "that fear of the recurrence of stringency in the Indian "money market which there was some years back. My "directors therefore indicate that the occasions on "which this bank"—that is, the Bank of Madras—"is likely to find it necessary to have recourse to the "London market will not be frequent"; that is to say, they were then apparently looking chiefly to the exchange banks to supply their needs?—Conditions have changed very much since this letter was written, but even now, if improved facilities in India were afforded, resort to London would not be very frequent, but what is desired is that in times of necessity there should be some door open.

6932. That you should have that resort?—Yes. You would not of course try to work up to a position which would make a resort to London necessary.

6933. As regards loans, or increasing the Government balances with the banks, as you know, great objection has been taken in the past on the grounds that the Government is already a very large depositor, and that it is exposed to sudden contingencies, and may be obliged to call up the cash at a moment's notice. That sort of position is particularly unsound in India, because, as I think Sir Clinton Dawkins said, although the Indian banks have excellent reserves, it would be very difficult for them to liquidate them at once, and there is no other resource to which they can suddenly go, as a bank at home would go?—That is, I think, a very strong argument in favour of giving the central bank power to go elsewhere.

6934. Under the present conditions you appreciate the difficulty of the Government's position?—Yes, I do.

6935. What is your rule as to the maintenance of a cash balance; what sort of principle do you work on?—Do you mean to what proportion?

6936. Do you keep a sort of minimum?—Yes, we have a minimum.

6937. How much is that?—About 33 per cent.

* *See* Appendix XV., page 468, para. 4.

6938. That is what was, I think, considered about the proper figure in the correspondence that took place some years ago?—Yes.

6939. You still go on that principle?—We still go on that principle of 33 per cent. of the liability on demand.

6940. (*Lord Faber.*) What do you mean by cash?—Actual cash—either rupees or Government notes, and nothing else. Balances with other banks are not included.

6941. (*Mr. Gillan.*) That is the proportion of cash to liabilities on demand and within one month?—Yes.

6942. You do not extend it in the case of Government balances?—No, that goes in with the payable on demand.

6943. Have you seen the figures Mr. Abrahams gave us of the percentage of Government deposits to your capital and reserve?*—No, I have not seen those figures.

6944. In the case of your bank, the percentage of the Government deposits to cash seems to vary; it is between 30 and 40?—That would be about it. That is the Government deposits to cash.

6945. Do you think that is unduly or dangerously high?—No, I do not think so.

6946. About the increase of capital which you proposed, I think you said 10 millions?—Bring it up to 10 millions; that was the figure I suggested.

6947. There was a passage in the old correspondence when this was being discussed before, in which Sir Clinton Dawkins, I think, said† that an increase in the capital would involve a corresponding increase in the cash balance; is that the case?—I do not quite follow. In what way would it involve a corresponding increase in the cash balance?

6948. It was not clear to me, and I thought I would ask you. That was apparently very much the reason why at that time they wanted an increase in the capital, so that they might get an increase in the cash balance. You suggested, I think, yesterday, that some increase of capital might be instituted in view of the transfer of the Paper Currency Reserve?—Yes, in view of the liability in connection with the note issue.

6949. That liability would be covered, surely, by the reserve held?—Of course it would depend upon the constitution of the note issue. It does not follow that because the currency was transferred to the bank, the same law would apply to the bank as applies to the Government now, and that the fiduciary issue should be a fixed sum of 14 crores only.

6950. I quite agree with that; but still, whatever decision was come to, some arrangement would be made?—Yes; probably there would be specific assets ear-marked against the note issue, or it might not be so—it might be held in the general assets of the bank in the same way that the Bank of France's assets are generally held.

6951. So why should you increase your capital on that ground?—There is a very large increased liability.

6952. I am assuming that the liability is provided for in one way or the other — is sufficiently provided for otherwise?—But if the notes are to be partly secured by the general assets of the bank, it means that the bank's liability is much higher, and the usual thing is to proportion your capital to your general liabilities.

6953. Apart from the Paper Currency, is there any other reason that strikes you for increasing the capital?—With the larger deposits that we expect to get from the Government balances, the liabilities generally all round I anticipate will be very much increased—practically doubled.

6954. (*Chairman.*) Your suggestion really comes to this, that if the Government is to put 4 millions of capital into the bank, it will be encouraged to lend the bank a larger sum than at present?—Yes. I suggest that as a means of raising capital. There would be a difficulty in raising such a large sum of money immediately elswhere, but the Government could gradually dispose of those shares as the market took them up. It is only an immediate way of bringing that about without upsetting the markets in any way.

6955. In the meantime the security of the Government's balances would not be increased?—No. That would be so, from the Government's point of view, but the general public would be much larger creditors than the Government, and from their point of view it would not be so. The Bank's liabilities to Government might be 12½ million, but to the public about 55 million.

6956. (*Mr. Gillan.*) Would you be able, as a matter of fact, to use this 10 millions at once?—I think there would not be very great difficulty in finding outlets for it; I do not say immediately in the actual trade of the country, but so far as I am aware, India is calling out all round for development in railways, in harbours, in every conceivable thing, and there would be no difficulty in utilising the money immediately. I could put it all out in Madras in a week for new railways, if I had it.

6957. It is rather curious, if that is the state of affairs, is it not, that the Presidency Banks should find so much difficulty in making use of their deposits?—We have no difficulty in making use of our deposits. We could immediately undoubtedly invest the whole of it in railways and other securities; but when the busy season came round, then there would be no money left to finance trade. We have to look to that.

6958. I think Madras is somewhat different from Bombay and Calcutta, and of course Madras in itself would only be able to use a comparatively small sum?—I can put up a very large sum in the development of the country. If you develop the country the trade will develop in proportion.

6959. Suppose you raised your capital to 10 millions, would you be able to maintain your present rate of dividend?—I conceive that in the immediate future there is a possibility that the earning power might be reduced, but in the long run it must be so beneficial to the country that they must share in any developments, and the dividend power would rise.

6960. That would be a very serious drawback, would it not, in the launching of the scheme?—I do not think so, because the earning power of the banks is not all paid away in dividends by any means.

6961. You think it would not make it difficult to get the money, or to negotiate with the present shareholders; you think it would not embarrass the negotiations?—There might be some opposition on that score.

6962. On this question of the capital it seemed to me that you are increasing capital in anticipation of requirements, and that it would be better to increase the capital gradually as you could find occupation for it?—The object of the increase of capital is to proportion it to your liabilities.

6963. You must face the fact that for a little time you will not find full employment for it, so that probably you will not be able to keep up your rates of dividend?—I do not think it would be very long before we found we could put it into full employment, as long as railways and irrigation works are calling out for money.

6964. (*Chairman.*) You have said once or twice the drain of gold from London in your opinion reacts on Indian trade?—On Indian export trade.

6965. I understand you to mean that it reacts injuriously?—Yes, injuriously.

6966. Would you develop that for a moment?—A large export of gold from London naturally raises the rates in England, and as the export trade is financed in England that would make its finance more difficult. With higher rates, as I said, the probability is that prices will drop, so that the consumers on this side of it would live from hand to mouth.

6967. In your opinion, I understand, the bank rate in London is quite as important to Indian trade as the bank rate in India?—I would not go so far as to say quite as important, but it is a very important factor.

6968. At least it ought never to be left out of account?—It ought not.

6969. In considering the operations conducted by the Secretary of State?—I agree to that.

6970. (*Lord Faber.*) You do not appear to think that gold in circulation is an advantage?—Not in India—I do not think so.

* Appendix I., page 5. † Appendix XV., pp. 397–8.

6971. Is it not the fact that having gold in circulation is an advantage, because gold is the money of the world and can be used to pay foreign debt in case of need?—In my opinion, if gold is put in circulation in India, when the time came to pay the foreigner that gold would not be forthcoming.

6972. It would be hidden away, do you mean?—Yes. There is so much coin in active circulation in India and banking is not developed to any extent. There are large tracts of country where the actual coin goes out; and if the demand for the export of gold comes suddenly, I do not see how this money that is out in small sums in the country will come back again.

6973. You said another thing that was interesting, namely, that the banks would be inclined to carry more investments in their balance sheets if, at certain times of the year, there was a central institution where they could borrow on these investments?—That is so.

6974. Do you discount direct the small bills of agriculturists? We do not do that in England, but, as you know, many millions are spent in the discounting of bills under 5*l.* by the Bank of France. Do you do that at all in India?—Not so small as that. We discount direct bills that are equal to about 100*l.* or less—down to 40*l.* perhaps.

6975. (*Sir Shapurji Broacha.*) Between 1898 and 1902, under Lord Curzon's Government, the mints were empowered to take gold wherever it came from at the English rate of 79*s.* 9*d.* per ounce, and then some gold yen came from Japan, and Mysore gold was given to the mint, Lord Curzon personally entering into an arrangement with the Mysore Mines to take gold on the English basis instead of its being sent to England?—I did not understand that the Indian mines ever gave gold to the mints. I understood that they had already made arrangements for the sale of their gold in London, and therefore that they could not do it.

6976. They did so for a certain number of years, and then Lord Curzon's Government backed out of the arrangement and the gold came to England. In those years no gold came from Africa, did it?—I am not aware of any gold coming from Africa then.

6977. Yet men would like to bring gold from any place in the world if they could save in exchange $\frac{1}{64}$th or even $\frac{1}{128}$th of 1 per cent. as they have been doing now?—That means that they dispose of their gold in the better market.

6978. A question was asked of you about African gold, but do you not think the Secretary of State's method of selling bills is better? Last year he sold about 25 millions worth, and gold came to India to the extent of 29 millions, so there was no impediment to gold coming to India. Therefore, why should the sale of Council Bills be an impediment to gold coming to India at all?—I conceive of no reason why there should be an impediment to gold coming out. If gold is actually demanded, gold must come.

6979. You say he should sell below the gold point in order to stop gold coming out to India?—So as not to encourage it.

6980. That raises a great outcry in India, and I think the Secretary of State's method is better, because though he sells more than the amount budgetted in the Council Bills, yet gold does come *pari passu*—it did last year and the year before?—It will come from Australia and also from Egypt.

6981. Not allowing the gold to come would rather raise an outcry?—I do not see why, because the Secretary of State sells Council Bills below the gold point; that will prevent gold coming in if it is required.

6982. I think the present method is the best, as there is no impediment to the gold coming in?—My opinion is that he should continue to sell below the gold point.

6983. (*Mr. Keynes.*) How are your directors appointed at present?—By the shareholders.

6984. Are they in fact appointed in that way, or is it, as is often the case in England, that the existing directors nominate their successors?—If a director retires in the course of the year, the vacancy is filled up by the directors, but at every annual meeting two directors retire, and it is open to the shareholders to re-elect them or not.

6985. Is there any difficulty in getting the best available talent?—No, in my opinion we get the best available talent in Madras in this matter.

6986. You do not find cases in which men who would be exceedingly suitable cannot find the time for the work?—No, we have not found it so. It is considered an honour to be on the Board of the Bank of Madras, and the best men are always available to take it up.

6987. How are they remunerated?—The remuneration is so much per meeting—so much for a general board meeting, and so much for a committee meeting.

6988. It is not any substantial amount?—It is not a very large sum.

6989. Nothing that you could expect a man to give a good deal of his time for?—No.

6990. Might not Sir Ernest Cable's suggestion of uncalled capital meet the point which was raised by Mr. Gillan at the end of his examination?—Do you mean by uncalled capital, instead of calling up the full amount of capital—do you mean an uncalled liability?

6991. Yes?—I think it would to a certain extent.

The witness withdrew.

At the India Office, Whitehall, S.W.

SIXTEENTH DAY.

Thursday, July 24th, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. CHARLES CAMPBELL MCLEOD called and examined.

6992. (*Chairman.*) I think you are chairman of the Indian section of the London Chamber of Commerce?—Yes.

6993. And you represent that section here to-day?—Yes.

6994. You also represent the Bengal Chamber of Commerce?—Yes.

6995. In the memorandum which you have submitted to us (*see* Appendix XXVI., page 597) you express general agreement with the letter which has

been addressed to the Commission by the Bengal Chamber* ?—I do.

6996. I think it is your opinion that the fixing of the rate of exchange has been of great advantage to the trade of India ?—I think there have been circumstances that have helped it, but I think on the whole it has proved so.

6997. May I take it that in any case under the circumstances of to-day you would not suggest any reversal of that policy ?—No, I would not.

6998. In regard to the balances which have recently been held both in India and in London by the Indian Government and the Secretary of State respectively, have you any observations to make on their size ?—None.

6999. In so far as the Secretary of State has withdrawn those balances from India to London, do you approve his action ?—I do.

7000. I think in regard to the reserves which are kept, you express the opinion that the Gold Standard Reserve should be kept in London ?—Yes, that is my opinion.

7001. Just give me briefly your reason for that opinion, please ?—I think that the gold is always better held in London than it is in India, and that the securities can be lent out perhaps to more advantage in London than in India, and would be more quickly realisable.

7002. Perhaps one might add that if a crisis comes in which the Gold Standard Reserve has to be drawn upon, it would be in London that it would be needed ?—That is so.

7003. As regards the amount of the Gold Standard Reserve, you are of course aware of the way in which it has increased up to the present time ?—Yes.

7004. On one occasion the Indian Government withdrew for the purpose of railway development something like a million, which would have gone otherwise to the Gold Standard Reserve; do you approve of that action ?—Under the circumstances they had to find the money somewhere, and so long as they put it back again I approve of it, because it was urgent.

7005. You say "so long as they put it back again" ?—I would not approve of it permanently.

7006. Am I to infer from that that you would not like that act to be repeated ?—I would not.

7007. Have you any figure in your mind as to the sum which the gold in the Gold Standard Reserve should reach ?—Yes, at present 5 millions.

7008. You say, "at present," but what exactly do you mean by that ?—I mean that as the trade of India is at present, I consider 5 millions a prudent reserve to be held in gold; but if the trade of India increases, as I think it will, then I think the reserve might reasonably be increased.

7009. When you speak of 5 millions, do you mean 5 millions in actual gold ?—Yes.

7010. Would you increase without limit, from the sources by which the Gold Standard Reserve is now supplied, the amount to be held in securities ?—Yes.

7011. You say you think it is sufficient to hold 5 millions in actual gold; what process of reasoning has led you to fix upon that particular sum ?—There is no actual process of reasoning, beyond the fact that I consider 5 millions is a sum that ought to be held in gold proportionate to the extent of the Gold Standard Reserve at present.

7012. When in 1907–8 the Government had to have recourse to the Gold Standard Reserve, the amount they had to withdraw from it was very much in excess of that figure of 5 millions, was it not ?—Yes; but then 1907–8 was an exceptional year.

7013. I suppose it would only be in an exceptional year that the Government would need to have recourse to the Gold Standard Reserve ?—That is so.

7014. Do you think that 1907 and 1908 give you the measure of the possible demand which might be made on the Gold Standard Reserve under present conditions ?—It is very hard to say. I would not like to give a definite opinion.

7015. One witness who came before us said the position would have been much more grave if what he called the storm centre in those years had been in London instead of New York; perhaps you would agree with that ?—I do agree with that, certainly.

7016. There was a famine in those years in India, but not a very severe famine, I think ?—That is so.

7017. India has known much greater and much more severe famines ?—Yes, it has.

7018. So the balance of trade might have been more adverse than it was ?—It might.

7019. Do you not think then that your figure of 5 millions is rather a low one ?—I do not, looking to the present conditions.

7020. I think the amount which was withdrawn at that time in different forms was something like 17 millions ?—Yes.

7021. I understand from what you have said that in fixing the actual gold in reserve as low as 5 millions, you rely upon the possibility of rapidly realising securities to the further amount required ?—I do.

7022. Do you think that recent experience would lead you to build very confidently on that hope ? Suppose, for instance, you wanted to realise 10 millions of securities, even the best securities to-day, do you think it would be very easy to do it ?—I do not; but I consider the London market is in an exceptionally bad condition at the present moment. It has not often been so.

7023. Perhaps you would agree that the Gold Standard Reserve is, in fact, a form of insurance against bad times ?—It is.

7024. And that that being so, it should be large enough, and in a form liquid enough, to meet any strain which we can reasonably expect to be brought to bear upon it ?—That is my opinion.

7025. But you think with that 5 millions in gold and the rest in securities those conditions would be met ?—At the present time. I have stated that it might quite easily be increased to 10 millions in future, as the volume of trade increases.

7026. I notice that the Bengal Chamber of Commerce say that they would like to see a larger sum than 5 millions held in actual gold* ?—Yes, I have noticed that.

7027. In establishing a Gold Standard Reserve the Government of India followed the recommendations of the Fowler Committee, but in the matter of the establishment of a gold currency they have not; I gather from your memorandum that you think they have been wise to depart in that respect from the Fowler Committee's recommendation ?—I do.

7028. Do you regard gold currency as a wasteful form of currency ?—I do.

7029. You consider that gold in circulation is less valuable for the support of exchange than gold in reserve ?—I do.

7030. On the whole, therefore, may I take it that you would desire to see the Government of India push the circulation of notes as far as possible ?—I would.

7031. And keep their gold in their balances and reserves as much as possible, instead of forcing it into circulation ?—That is so.

7032. I think you also express the opinion that a gold mint is not needed in India ?—I do not think it is at present.

7033. If it were decided to open one, do you think they would get much gold to coin ?—I do not.

7034. Do you think that the mere opening of a mint in India would have any material effect in bringing out gold from the hoards ?—It is difficult to say, but in my opinion it would not.

7035. Am I right in thinking that you indicate in your memorandum that it is rather through an extension of banking facilities that the gold might be attracted from the hoards ?—Yes, that is so.

7036. That brings me to the question of banking. Are you in favour of the suggestion which has been made for the establishment of a State or Government bank ?—No.

7037. Perhaps you would tell us briefly your reasons for your opinion ?—I have given them under the head of Central State Bank in my memorandum (page 597), and I do not know that I can improve on

* *See* Annex to Appendix XXVI., page 601.

* Page 603, paragraph 7.

what I said there. I do not think an institution of that kind is necessary at present. The paper currency is very well managed by Government; the existing banks are quite capable of conducting the trade as it is at present, and also quite capable of great expansion; the shares of the three Presidency Banks are at a considerable premium, and so also the shares of the Exchange Banks are at a considerable premium; and none of these institutions, including the joint stock banks in India, would have any difficulty in extending its capital to a very large extent in India.

7038. You say in the passage to which you refer that you think "it would be quite impossible efficiently to control such an institution from one centre, and especially in a vast country like India" (page 597)?—That is my opinion.

7039. Do you attach great importance to the local management of the Presidency Banks at the present time?—I do.

7040. Would it be easy, in a country situated as India is, to compose a central board which would be representative of the different parts of India and would consist of men of sufficient leisure really to control the business?—I should say it would be very difficult indeed.

7041. It is not very easy at the present time, is it, to find men of sufficient leisure to keep a constant check upon the affairs even of the Presidency Banks?—No, there are very few men of leisure in India of that capacity.

7042. Do you think if there were a central bank, the management of it could be practically left either to the officials of the banks or to official representatives of the Government who might be appointed to give their whole time to the directorate?—If there were such a bank, I think it would require to have men who have studied the conditions in the various Presidencies in India.

7043. It would, I suppose, be necessary to have local boards acting under the central one?—It would be.

7044. May I take it generally that from your experience you do not think it would be possible to get a central board at once really representative of India and really capable of giving such time as would be required for the effective management of the affairs of the bank?—I do not.

7045. In that connection you suggest that the attention of the Government might be more wisely directed, I think, to the encouragement of co-operative societies in order to help the agriculturists?—I do.

7046. That is rather outside the scope of our reference, but I would like to ask you two questions upon it. Have you watched the progress of those co-operative societies in recent years?—Yes, I have.

7047. Are they tending to bring out money from the hoards, and to induce the native to deposit his money with them rather than keep it in his own house?—I think that is the case.

7048. Would you agree with some other witnesses who have been before us, who have thought that too much stress was laid upon the hoarding propensities of the Indian, and that, given his circumstances—in many cases far away from a bank, remote from communication—he did not keep more money in his house in proportion to his means than we keep under our immediate control here?—I would be inclined to agree with that opinion.

7049. If that is so, until those circumstances are changed you could not expect much of the money now held to come out of the hoards?—No.

7050. Now I want to ask you a question or two about capital expenditure. I think you have urged upon us in your memorandum that there is an enormous need for railway development in India (pp. 598–601)?—Yes.

7051. And that the Indian Government might not only usefully spend, but would be obliged to spend, larger sums year by year on their capital development than they have been spending in the past?—That is so.

7052. Do you think that for those purposes they can borrow more freely in India itself?—I do.

7053. To what extent, do you think—I ask you only for a very rough answer?—I think they could borrow five millions per annum at present in India.

7054. On terms as good as they could borrow in London on a sterling security?—I am not prepared to go as far as that; but at the present moment you will notice that India 3½ per cent. sterling securities are about 87, whereas last week an Indian Government loan of 3½ per cent. was all taken up at 96½.

7055. The present circumstances seem to be specially favourable to borrowing in India?—They do. That is what I have stated—that there are periods when it is favourable.

7056. Speaking generally, over a period of years, is it your opinion that the Indian Government might wisely and safely borrow more than they do in India?—I would not like to give an opinion on that, except that I think they could borrow more for railway expenditure, if necessary, than they do at present in India.

7057. In any case you would like to see them borrow as much as they prudently can in India?—I would.

7058. Either in order to add to their total resources or in relief of their borrowings in London?—That is so.

7059. As regards the purchase of silver bullion for coinage, you say that recent experience seems to render it "highly desirable that purchases of silver should be "made more regular than intermittent"?—Yes.

7060. I understand you to mean by that that the Government should purchase a moderate amount of silver bullion year by year in anticipation of future demands?—That is so.

7061. I think it has been the case in the past that the demand for rupees has varied very much and very rapidly from year to year?—It has.

7062. Do you think that the scheme of more regular buying that you recommend is practicable under those circumstances?—I do. Having regard to recent experience, there is no doubt that the hands of the Government have been forced to a certain extent, and I do not think they ought to allow themselves to be in a position to have their hands forced. I think therefore that their purchases of silver should be more regular, however small they may be, so as not to show to the public, or to those who are interested in the purchase of silver, that their silver bullion is at a low ebb, and thus give those people knowledge that the Government must come in to buy. I think the Government should always have a regular system of purchasing silver; as to the extent, they should be guided by the state of trade, and it might therefore be less one year and more another year; but the purchases should be more regular.

7063. I think that in the years preceding 1907–8 there had been a considerable demand for additional rupees from the Government; and in those years there was a great return of rupees to the Treasury, if I remember aright, and it took some little time to work them off. Supposing that you had been starting such a proposal as you have just made about 1907–8, when, instead of the public requiring more rupees they were returning them, then if you had gone on buying the silver you would have accumulated large quantities of silver in your Currency Chest, or somewhere, which you could not pass on to the public for the time?—Under those circumstances the thing would be to stop purchasing for a time, undoubtedly, until those rupees were worked off.

7064. But as soon as they began to work off would you then begin to buy in moderate amounts?—I would.

7065. It was common knowledge, I suppose, before the Government began to buy a year ago that the time must be very close when they would have to buy?—That is so.

7066. And that they would have to buy in very large quantities?—That was the supposition.

7067. If I gather rightly, your feeling is that that places Government at the mercy of the market, and that Government ought not to be in that position?—That is so.

7068. So, even at the risk of having silver bullion lying idle in some quantity for some time, you would make regular purchases rather than wait until their hands were forced?—I would.

7069. In regard to the financial organisation and procedure of the India Office you suggest, "without offering any criticism," that the Finance Committee of the India Office should be composed of an ex-Civilian who has held the position of Financial Minister in India, an Indian Presidency bank manager, a London joint-stock bank manager, a retired exchange bank manager, and a mercantile man with a considerable Indian experience. Will you give me your reasons for those proposals?—My reason for those proposals is, as I said, without offering any criticism on the past at all, that that combination would, in my opinion, be the mixture, if I may call it so, of the class of officer who would be best capable of conducting the financial dealings of the India Office and of the Indian Government.

7070. Does this indicate a feeling in your mind that Indian experience is not sufficiently represented in the present financial organisation of the India Office?—It does.

7071. On the other hand, speaking not of the organisation itself, but of the policy which it has pursued, I gather, both from what you have said and what you have written, that you do not suggest for a moment that that policy has been otherwise than in the interests of India generally?—I do not.

7072. (*Lord Faber.*) With regard to your opinion that five millions of actual gold in the Gold Standard Reserve would be sufficient, you are aware, of course, that at the period of the last crisis, 1907, India only had one bad year, not two bad years running?—Yes; it was the financial year 1907–8.

7073. There was a bad monsoon in 1907?—Yes.

7074. In that year London was in a good condition to stand the demand on it for gold?—Yes.

7075. I suppose it would not be an unheard-of thing to have two bad monsoons running in India?—No, it would not be an unheard-of thing—we have had two; but it is not very probable.

7076. You may have to face two bad years running, and simultaneously a bad year in the London market: that is possible, is it not?—It is possible.

7077. Bearing in mind that in 1907 the demand for gold was, I think, 17 millions or thereabouts, when India only had one bad year; and bearing in mind the possibility of two bad years and a bad year simultaneously in London: do you think 5 millions would be anything like sufficient?—The case you put, to my mind, is rather extreme.

7078. I know it is?—I have said in my memorandum that it might quite reasonably be increased to 10 millions. I would not object to the 10 millions, but my opinion is that it should be 5 millions at present, and as the trade increases we could increase it to 10 millions.

7079. I suppose at the back of your mind, as at the back of the mind of all bankers, myself included, you think gold is a very expensive thing to keep?—It is a dead-weight; it does not earn anything.

7080. And you would rather run the risk of not being able to keep up the exchange than forgo some interest which you would have to forgo if you kept a large supply of gold: is that a fair way of putting it?—That is right; I would.

7081. You are hardly in favour, I gather, of having much gold in circulation in India; you would rather have it in the banks, would you not?—I would rather have it in paper.

7082. Are you in favour of gold as against silver rupees for circulation generally?—No, I am not.

7083. I notice in the interesting letter from the Bengal Chamber of Commerce, paragraph 15 (page 605), that the amount of sovereigns now being used in India has increased very fast. That shows, does it not, that the population like gold as against rupees? If you look at the little table in paragraph 15 you will see that, while the receipts of sovereigns at the Post Offices in 1907–8 and 1908–9 amounted to big sums, from 1909–10 to 1911–2 they have been increasing markedly?—In 1908–9 it was down by 357,000*l.* and in 1909–10 it was down by 750,000*l.*—that is, it was a quarter of the previous year.

7084. And now it has jumped again to higher than that?—It jumped up in 1911–2.

7085. Probably this year, I should think, you will find a further increase still, on account of the gold going to India?—But it is a very small proportion.

7086. Still, there it is and it is increasing. That shows rather, does it not, that the people of India are getting to like gold as a circulating medium?—I would not like to say that.

7087. (*Sir Ernest Cable.*) I gather from the whole tenour of your memorandum that you approve of the policy which has been pursued in the past of cautious budgetting, of keeping taxation fairly level, and utilising the surpluses, if any, for reproductive capital expenditure?—That is my opinion.

7088. You prefer that policy to close budgetting, which involves fluctuations in taxation?—I do, especially in India.

7089. With regard to your remarks on the Gold Standard Reserve, of course there is a point at which any cautious man would say that a safe limit had been attained, and that no further sums should be placed to that reserve. You would favour the suggestion, probably, that any further profits on coinage after that limit had been reached might be spent on railway development?—I should like to say in reply to that that it would depend entirely upon what progress was made in the country itself, and how the exports were increasing. As I state in the memorandum, I do not think that the minimum quantity of gold to be held should be laid down rigidly; I think it would have to be guided by the progress of the exports of the country.

7090. But with due regard to caution, profits might be so utilised?—With due regard to caution, I should certainly think that part of the money made in coining might go to reproductive works, such as irrigation and railways.

7091. I think you said in reply to the Chairman that you thought the present banking facilities in India met the full requirements of trade?—That is my opinion.

7092. Of course you will admit that there are periodical stringencies in the money market?—There are periodical stringencies owing to what we might call good trade, but the rate of interest has not been very high.

7093. You would not say that that stringency has been caused, as has been said by some of the witnesses, by the withdrawal by the Government of money from the country in the collection of taxes?—No, I would not.

7094. Then you would not agree with the view that if there was a State bank into which those collections were paid at once, they would not have been withdrawn from the market and, therefore, the stringency would not arise?—That is so.

7095. I suppose you would agree that there are two classes of hoarding—there are the hoardings of the people in their huts who bury their few rupees, and there are also the enormous sums which we know are hoarded by the princes and maharajahs, and probably in the temples. Do you think that the institution of a State bank would give a feeling of security to those rajahs and princes to such an extent that they might bank their hoards?—No, I do not.

7096. With regard to financing agriculture in India, it has been suggested that a State bank would perform a very useful function in financing co-operative societies?—I do not think that is quite the way I put it.

7097. It is not in your memorandum; it was somebody else who suggested that. Do you not agree with it?—I am in favour of encouraging co-operative societies, but I am not in favour of encouraging co-operative societies through a State bank. I do not agree that a State bank is required at all.

7098. Do you think that the amalgamation of the three Presidency banks would render their cash more available for the general use of the country, instead

of its being, as it is at present, in watertight compartments?—No, I do not.

7099. (*Mr. Gladstone.*) Referring to your suggested composition of the Finance Committee of the India Office, to which the Chairman has alluded, you would approve, I suppose, of the India Office being also fully represented on that Committee? There is no official representative in your list, there is merely an ex-Civilian. Would you not consider it necessary to have the best expert official advice added to this Committee?—Certainly.

7100. You think, I gather, that private enterprise should be encouraged, so that the direct capital commitments of the Indian Government may be reduced?—I do.

7101. With regard to the purchase of stores by Government you are, of course, aware that a very large sum is expended in London for the purchase of railway and other stores: on the grounds mentioned in my previous question, would you favour a policy by which the railways in India were encouraged to purchase and pay in India, thus reducing the obligations on the balances which the Government of India have in London?—If they were satisfied that the works in India could turn out wagons of the same class as they buy here, and that they could procure equally good and satisfactory stores, I would.

7102. By my question I meant to include the purchase of material from this country, but that they should be purchased by those who used the material and stores, and ordered and paid for in India?—I am afraid I do not quite understand.

7103. Under Government supervision in India the railway companies, for instance, would issue tenders in India, make their contracts there, make their own terms in regard to delivery, quality of goods and so on, and pay for the goods in India?—I see no objection to that.

7104. At present a large sum of money has to be provided in London by the Government to pay for those stores, wagons, and so on?—I do not see any objection to their being paid for in India.

7105. Would you not see a direct advantage in that being done? I would point out that managers and others, who may be ordering hydraulic machinery and things of that kind, would then be themselves in direct contact with the manufacturers and their agents, and so would probably get better value and, through competition on the spot, perhaps better prices?—What I understand you to ask me is whether it might not be more desirable for the Indian railways to purchase their stores in India than in London; I do not see any objection to their purchasing them in India.

7106. Would you see some advantage in lessening the direct commitments and the commercial work of Government by making such purchases in India?—Yes.

7107. It would withdraw that particular section of work from the India Office here?—I am afraid I may not have understood you. What I thought you meant was, would there be any advantage in the Government of India purchasing stores for Indian railways by tender in India for stores that were made in India, giving the Indian people who made the stores, or partly made them and partly imported them, like axles for carriages and so on, the benefit of that. I say that there might be an advantage in that, and that these things could be paid for in rupees in India; but I cannot see how it would affect the balances one way or the other, if that is the point you have in your mind.

7108. It would not affect the trade balances obviously. We have had criticisms on the large extent to which the Indian Government, and the India Office more especially, are engaged in banking and what I call commercial work, such as buying railway stores. You are aware probably that not one shilling's worth of stores can be purchased at present without the direct sanction of the Secretary of State in regard to all the sterling railway companies?—Yes, I know that.

7109. Turning now to the letter of the Bengal Chamber of Commerce, in paragraph 10 (page 604) they say: "The difficulty in India is the provision of the "necessary security" for any loans that might be made in India. Do you not consider that there would be an advantage in the Government making an issue of short-term bonds which would command a fixed price about par, which would thus largely increase the type of security which could be used for obtaining loans in India from the Government?—Is it your suggestion that the Government should issue short-dated bonds and that these should be used by the holders of them as security for borrowing money from the Presidency banks?

7110. As they do in this country, where they issue all kinds of securities—what are called floaters, long-term loans, short-term loans, registered stock, and bearer stock?—I do not see any objection to it.

7111. That would meet the point made by the Bengal Chamber of Commerce as to the difficulty in India of the provision of the necessary security?—The explanation of that, which I daresay is known to you, is that there are practically only one or two classes of security in India which are available for strictly borrowing purposes under the terms of the constitution of the Presidency banks—that is, Government paper, and I am not sure, but someone here will know it, whether Port Trust debentures do not come within that too. At any rate, the security is confined to one or two classes, and there is nothing like the field that there is, of course, in England.

7112. I am suggesting that these securities should be widened; that is why I suggest an issue of that kind?—I do not see any objection to it.

7113. Perhaps you are aware that the Government of India now allow advances by the Presidency banks against the securities of Indian railways other than those guaranteed according to a schedule which is added to from time to time, so that those securities, especially if they were increased, would be available for this purpose. Perhaps you do not know that that is so?—I do not.

7114. With the view also of meeting that point of the Bengal Chamber of Commerce, would you recommend that the branch-line terms which are now given to railway companies with rupee capital should be extended to sterling capital?—Yes, I would.

7115. I understand that you are not in favour of a State bank or even of an amalgamation of the existing Presidency banks?—No.

7116. If such a bank were established, I suppose you consider the control of such a bank would naturally be in Calcutta, as being by far the largest trade centre and also having the largest population?—I do.

7117. It was for these reasons, was it not, that the Government of India decided to retain the office of Head Commissioner of the Paper Currency in Calcutta?—I believe it was.

7118. Do you think it would be possible to have the supreme control of such a bank, if set up, exercised from London?—No.

7119. It would be obvious, would it not, that men of high standing with Indian experience and the necessary leisure, could be more easily got together in London than in India?—It would.

7120. (*Mr. Keynes.*) You express a doubt as to the practicability of a central bank in so vast a country as India, because the different races have different forms and different ideas of banking: could you give some examples of the kind of differences of which you are thinking?—I am afraid I could not now, but I could if I had time to think it out. I think you would easily be able to collect evidence which would show that there are different forms of banking in Bombay, Calcutta and Madras, that the natives in these three Presidencies work upon different systems, that in some parts of the country they work pretty well by hundis or the exchange of paper, that in other parts they work more on silver and currency notes, and that in other parts, as I say in my memorandum more in the Western and Northern circle, there is a little gold in circulation.

7121. Is that the kind of difference you are thinking of—the difference between the comparative use of gold, notes, and silver, and in some places bills?—That had something to do with it, certainly; but what I was thinking of more was the different sets that you

meet in those three Presidencies, and their very different ways of doing business.

7122. I can understand that there would be all sorts of little differences of that sort of which local boards would have to take account, but I was wondering whether there were differences of a kind which would in any way inconvenience a central board; clearly those you have mentioned would not, would they?—Not if you had on the central board men who were well versed in the different ways of doing business in all the Presidencies. But you must remember that India is a very large country.

7123. The point as to whether payments should be made in silver, gold, or notes, would not be one on which the central board would wish to have any particular views?—No.

7124. Are there any points which would necessarily come under the cognizance of the central board in which there are important differences between different localities?—I should think there were.

7125. Will you mention any?—I can mention nothing beyond the fact that I know that all the three different Presidencies have different ways of doing their own trade.

7126. But you cannot mention any precise point?—No, I cannot offhand.

7127. With regard to the Finance Committee of the India Office, you are aware of course that it is a Committee of the Secretary of State's Council?—That is so.

7128. And that the members of that Council have to advise on many important questions other than financial questions?—Yes.

7129. You think that no less than five out of the twelve members of the Secretary of State's Council should be persons of the kind of experience you have suggested?—I have stated five in my memorandum.

7130. The total number of members of the Council being twelve, I think?—I think that is so.

7131. You think that five out of twelve members of a Council who have to advise on matters of every sort should be persons of the kind you suggest?—I do not go so far as that. My point is this: I suggest that the Finance Committee of the India Office, whatever its size is, would be best serving its purpose by having one of each of these denominations, or perhaps having four out of these five, leaving out one in any way that was thought suitable. That is the combination that I consider would be the best able to deal with those questions.

7132. I can understand that that would be a good idea if the Committee was appointed purely for the purpose of financial advice; but that is not the existing system. Do you think that your proposal is compatible with the existing system?—I do not know whether it is or not. What I do know is that I consider that this is the foundation of a Committee that would best serve the India Office.

7133. You were thinking of the composition of a Committee appointed *ad hoc*, rather than of the sort of Committee which you could get by forming a Committee out of the members of a Council who are appointed for general purposes?—I do not quite understand.

7134. You were thinking rather of what sort of Committee you would appoint if you were appointing a Committee purely for financial purposes?—That is so.

7135. You were not thinking whether that was compatible with the other functions which the members of the Council have actually to perform?—That was not in my mind.

7136. (*Sir Shapurji Broacha.*) You agree with the recommendation made by the Bengal Chamber of Commerce that the Gold Standard Reserve should be held in London, and that at least 5 millions should be held in gold?—Yes.

7137. That was not the opinion of the Bengal Chamber of Commerce just after the exchange crisis. Does the Bengal Chamber of Commerce make that recommendation because it now thinks that half a loaf is better than no bread?—I think they have fully explained why they changed their opinion to a certain extent. It was consequent on the change that was made.

7138. I will read to you a dispatch of the Government of India which is an echo of the opinion of the Bengal Chamber of Commerce. This is from a letter of the Government of India to the Secretary of State, No. 89, dated 1st April, 1909 (Appendix V., page 170, paragraph 7): "The point is one on "which informed public opinion in India is singularly "unanimous. We are frequently asked why we strain "after interest on the Reserve which is the basis of "our currency system, and consequently one of the "chief pillars of the credit of India; and it is pointed "out that other countries are careful to retain the "ultimate foundation of their credit in bullion . . . " . . . Moreover, we conceive that the position of "the Government of India in the markets of the "world would be much stronger as the possessor of a "large store of liquid gold than as the possessor of a "corresponding capital in Consols or similar securities. "In the former case the Indian Government might in "emergency be powerful to help the Indian market: "in the latter there would always be the potential "danger of their wishing to realise at an inconvenient "season. We would therefore urge on your Lordship "the propriety of building up a substantial share of "the reserve in liquid gold, to be held under as nearly "as possible the same conditions as the currency gold "in London." They have changed their opinion since?—That is quite evident.

7139. What are the reasons for the change?—I am not prepared to state what the reason for their change is, but I am prepared to state that the recommendations which I place at the beginning of my memorandum express their opinion now.

7140. Did I understand you aright that you would rather lose the par of exchange than lose interest?—I do not think with 5 millions at present of liquid gold in the Gold Standard Reserve that there is any immediate danger of losing the par of exchange. You might get exceptional circumstances, as was pointed out, which might bring forward a difficulty; but it does not appeal to a business man or a business community that money should be locked up in liquid gold which does not bring forward any interest at all, when you have first-class securities which are as near an approximation to liquid gold as you can have, and they are earning interest.

7141. You say that now it is difficult to sell 10 millions of Consols?—I say it is at the moment; but the London market is in a peculiar position, as you know, and the reasons for it are very fairly well known to everybody.

7142. There is nothing wrong in India, and there is nothing wrong in this country; there has been no war, and yet you think that it might be difficult to sell 10 millions of gilt-edged securities. What would be the condition if we were involved in a big war, or if there was a famine?—I should like to say that my opinion was asked whether I thought there would be a difficulty; and speaking from my rather limited knowledge of the London market, I should say there would be a difficulty at the present moment, for reasons which, as I say, are pretty well known to everybody.

7143. And you are right?—Ordinarily there would be no difficulty in selling 10 millions.

7144. Do you expect a market when the bank rate is higher than 4½ per cent.?—We have had securities at a much higher level than they are to-day, with the bank rate higher than it is to-day.

7145. May we not have exceptional times of difficulty? Would you allow exchange to go to 1s. 3*d.* again, and let all the wealth of India be disturbed for a paltry amount of interest?—I do not think that we should prepare for ultra-exceptional times. The ordinary business man has got a certain amount of capital to work his business on, and he is not going to put that capital in a pot and seal it up and make no use of it.

7146. Is not Germany an ordinary business country, is not France an ordinary business country, and is

not Russia an ordinary business country?—Undoubtedly.

7147. They do not deal commercially with their gold; they build up a large foundation of gold?—I am only prepared to give my opinion on it.

7148. And what you have stated is your opinion?—That is my opinion.

7149. (*Sir James Begbie.*) In the paragraph headed Gold Currency and Coinage (page 598) you describe India as a country accustomed to a silver coinage, but you also refer to the advance which has been made in the circulation of gold coins, especially in Western India. Do you know whether there has been a great increase in the active note circulation?—I do not know. I say that the advance in the circulation of gold coins in India has not been very rapid, and is confined chiefly to the northern and western circles.

7150. Can you tell me whether there has been a great increase in the figures for the various banks' clearing houses in India?—I believe there has, but I am not prepared to give you the figures.

7151. You have the fact that there has been a considerable increase in the note issue and a considerable increase in the use of cheques; would you not therefore say that India is gradually becoming accustomed to other forms of currency than silver?—Yes, I would.

7152. Do you think it is possible that the use of other forms of currency may be extended?—It is quite possible.

7153. You are not in favour of coining gold in India, because you think it is not required at present; do you look forward to its being required some time in the future?—It is very hard to say. There is no doubt that there has been an advance in the circulation of gold coins in India to a certain extent, but how far it has gone I am not prepared to say.

7154. You also object to the coining of gold because the process will be an expensive one?—Yes.

7155. The cost of coining a purely Indian coin would be less than the cost of coining sovereigns, would it not?—That I am not prepared to say.

7156. If gold were coined in India and had the effect of reducing the additions to the rupee circulation, could the cost of coining the gold not be set off against the saving there would be in the minting of rupees?—It might be.

7157. You also say that if the coining of gold in India is decided upon "it should be in the most convenient form, and that is a sovereign (page 598)." In the case of the silver coinage the coins provided are of the face value of 1 rupee, 8 annas, 4 annas, and 2 annas; would you say that these denominations suit the convenience of the Indian public?—Yes.

7158. In the case of the note issue the lower denominations have the face value of 5 rupees, 10 rupees, and 50 rupees; do you think that those denominations have been found convenient by the public?—I do.

7159. Would you say that a 15-rupee note would be a convenience to the public?—No.

7160. But you think a 15-rupee gold coin would be the most convenient value for a gold coin?—Yes, and I give the reason why I say so—because the sovereign has become an international sovereign. The sovereign is not a 15-rupee gold coin, but it is a coin worth 15 rupees; that is the standard which has been fixed for it.

7161. It is not a matter of convenience to the public?—No, not more so than notes.

7162. You also say that a 10-rupee gold coin would not be of any use for export; is it not the case that India exports uncoined gold regularly?—I understand that a 10-rupee gold coin would be of no use for export except as gold.

7163. But it could be exported?—It might be exported, I suppose, as gold.

7164. I asked the question because I understood you to say it would be of no use for export?—My opinion is that it would not be of any material use for export, on the supposition that the 10-rupee gold coin is being coined for circulation in India and for the convenience of the people of India. I do not take it that this 10-rupee gold coin would be one that would be held up in large quantities like the sovereign, or that it would be treated on the same basis as the sovereign.

7165. Still it would be useful for exporting gold if you wanted to export gold?—It would be useful so far as its value is represented by gold; I cannot deny that.

7166. (*Chairman.*) If I rightly understood your meaning, you think that the 10-rupee gold piece when used for export would rank only as bullion?—That is all.

7167. But you think that the sovereign ranks as a coin?—That is so.

7168. (*Sir James Begbie.*) I want to ask you about your remark that a 10-rupee gold coin "would tend to destroy the standing of the sovereign"; do you mean the standing of the sovereign in the eyes of the Indian public?—Yes.

7169. Is there any evidence that the sovereign stands specially high in the estimation of the public in India?—Yes, I think there is. I think that the natives of India look upon the sovereign as a coin of value. It has a certain value, it has a certain standing—it is sentimental perhaps, but it has.

7170. Do you not think that they would look upon a 10-rupee Indian gold coin in the same way?—No, I do not think so.

7171. You also think that a 10-rupee gold coin would encourage hoarding?—I do.

7172. Do you think it is a great advantage to that portion of the India public who are given to hoarding to hoard up rupees rather than gold?—No. I meant to have added the word "ornaments" after "hoarding" in my memorandum, but I omitted to do so (page 598).

7173. Do you think the temptation to hoard gold is increased by an excess of rupees in circulation relatively to gold coins?—No, I do not think so.

7174. You are aware, I suppose, of the great demand for bar gold in India?—Yes.

7175. Do you see any objection to the continued issue of rupees on a large scale in the presence of that demand for bar gold?—Do you mean Government issuing more rupees and taking in bar gold?

7176. I mean the continued mintage of rupees, and the issue of rupees to the public, in the presence of the great demand for gold, which is evidenced by the demand for gold. Do you think it makes any difference?—No, I do not.

7177. Does it not come to this, that when Government issues rupees which are largely used to buy gold, the ultimate result is that India uses gold to buy silver for coinage which is largely converted back into gold?—I am not prepared to say that is the case.

7178. (*Mr. Gillan.*) I notice that in dealing with the question of Council Bills you refer to "the existing system, whereby the Secretary of State sells "Council Bills and transfers in excess of his needs" (page 598)?—Yes.

7179. We know that recently, having very large balances, the Secretary of State has brought home much more money that he wanted immediately; you do not mean that he should bring home money that he is not going to need at any time, do you?—No, I do not. What I mean is that I consider that as long as the Secretary of State sells bills and transfers to the extent of the full trade demand, that is, the balance of trade, there is no objection to it.

7180. But he must foresee some use for the money which he is bringing home by means of Council Bills, must he not? You would not propose that he should bring home money that he is not going to need ultimately at home, would you?—He has always got the gold value for the bills and the transfers that he sells. If the money is required out there by the trade, I do not see any objection to his selling to the full difference between the exports and the imports.

7181. If he brought home money in excess of his ultimate requirements, we will say, he would either have to keep that money here in England indefinitely, which I suppose no one would propose, or he would at sometime have to ship that back to India?—Yes.

7182. You would not propose that?—No, I would not.

7183. So that he has really to look after his requirements, and to consider what is the best distribution of his balances between India and England?—That is it.

7184. Looking to his requirements and his interests?—Yes.

7185. And this advantage which is secured to trade is an incidental advantage in the course of his transactions?—Yes, that is so.

7186. With regard to the coinage of silver, you have expressed the wish that these purchases should be made more regular. With that of course the Government of India would agree. The difficulty, as the Chairman pointed out, I think, is that we have such extraordinary variations in the demand, so that the purchases, as I think you said in reply to the Chairman, could not be altogether regular, but there would be intermissions?—That is so.

7187. I want to put this to you as a practical question. At the end of the crisis, which the Chairman noticed in 1908–9, we finished up with a balance of 47 crores of rupees. I will ask you to take it from me that what we regard as a working balance is 18 crores; in that case you would not purchase silver when you had 47 crores in hand, would you?—No.

7188. At the end of 1909–10 we had 33 crores, still a very large excess. The time perhaps had not come then for a purchase of silver?—No.

7189. At the end of 1910–1 we still had 29 crores; would you have started purchasing silver then?—Not unless I saw some reason for it. There is not very much difference between the balance then and the balance in the previous year; it is only a difference of 4 crores. I would not necessarily have started then, unless I saw some reason ahead for it.

7190. At the end of 1911–2 we had only 18 crores, and, as you know, the Government of India at that time were making arrangements for the purchase of silver. I take it that on the whole all you mean is that we might have begun a little sooner than we did?—Exactly.

7191. But not very much sooner?—No, not very much sooner.

7192. About the question of the gold mint, there is one point that is not clear to me. You say the 10 rupee gold coin could not be of any use for export; is it not the general experience that gold coin of different kinds is exported from various countries merely as bullion?—As bullion it is exported. My intention was to say that "a departure to a 10-rupee "gold coin would not in my opinion be a sound move "as it would not be of any use for export" as against the sovereign.

7193. Then you say it would encourage hoarding; this was a point that Sir James Begbie put to you?—Yes, I do.

7194. I do not know that hoarding means more than, we will say, the retention in one's personal custody of one's savings or surplus; is that how it appears to you?—Yes.

7195. How would the mere constitution of the currency affect the amount of one's savings; do you think that it could add to the total amount in hoards?—My intended meaning was that this 10-rupee coin, being of a less value than the sovereign coin, would fall within the means of a great many more people in India to buy and hoard it or to use it as an ornament; that the fact of its being five rupees less purchasable value would make it easier for a certain class in India to buy for hoarding and ornamental purposes.

7196. That is to say, you would have a larger portion of your hoards in gold and less in silver than you have at present?—Yes; and in the same way in ornaments—they would substitute the 10-rupee gold piece for the present silver ornament.

7197. Would you agree that the sovereign is too large a unit for the great bulk of the ordinary payments which the Indian people have to make?—In itself, yes.

7198. I mean for purchases of grain or cloth or for any ordinary transactions of that kind?—Without the help of silver, of course it is.

7199. I mean in the actual payment of something they have bought it is very seldom that they would have to pay a sovereign?—Yes, I should say it is.

7200. I do not know if you would be able to answer this. Would you say that the same thing applied to what are larger and more important payments, that is to say, payments of rent? If a man has to pay his rent every six months, would you say that the bulk of those rents would be less than 15 rupees?—I am not prepared to say that. I have no experience of that.

7201. Would you say that there is a tendency for the sovereign to be more useful for hoarding purposes and less useful for payment purposes?—I would not like to say that either.

7202. Now about the State Bank. You say an institution of this kind is not necessary "at present"; what is the meaning of that qualification?—The qualification "at present" means that there are sufficient facilities at the moment to meet all the trade of India in the institutions that are in India. I do not think it is required; I think the Presidency Banks, the Exchange Banks, and the Indian Joint Stock Banks, are quite capable of financing the trade as they are now.

7203. You mean that an institution of this kind would not be required until the time, if that time ever comes, when the banking facilities of India are, for some reason, found to be inadequate?—That is so.

7204. You refer in the same connection to the paper currency; I think you said in answer to the Chairman, that you consider it has been well managed by the Government Department which runs it?—I do.

7205. What has been put to us is that our present paper currency system in India was based on the English system of 60 years ago; that that system has been left behind; that this country, by the development of the cheque and so on, and other countries, have developed newer systems; and that as a matter of fact this system is rather, even in India, out of date?—I do not agree with that.

7206. Supposing that some other system were substituted for it, on the analogy, we will say, of the French system or the German system, that is to say, a more commercial and less stereotyped system, would you agree in that case that it would be better run by a bank than by a Government?—I do not think so. Of course a great deal would depend upon what the system was. I consider that the present system of paper currency in India is well managed, and is very suitable for the country, and should be encouraged.

7207. What was in my mind was that the present system is a sort of cut-and-dried system; you have got so much in securities, and for the rest you have an actual deposit of coin against every note that goes out?—That is so.

7208. You might have a more elastic system in which the circulation of notes would be covered not only by the actual deposit of coin, but it might be by bills or by some other form of security; and in that case it seems that a bank would be more able to deal with it than a Government Department?—That would be so.

7209. Sir Ernest Cable, I think, asked you whether you do not think that a State Bank might attract more deposits; is it not possible that the prestige of Government would have that effect?—It is possible.

7210. I noticed, for instance, that the other day some of these co-operative societies in the United Provinces had at their district banks been given cash credits by the Allahabad Bank, but the natives felt that this Allahabad Bank, as they call it, was some sort of unknown institution in the background that they knew nothing about. Suppose they were told that they were being financed by a Sirkar Bank, would that not have given them more confidence?—Very likely.

7211. You refer to the difficulty of control in managing a central bank for India; is there not already an example of a very far-reaching institution in the Bank of Bengal which reaches from Bengal to Peshawar?—Yes.

7212. Are there not great differences between Burma, Bengal, and the up-country districts?—There are different ways of dealing. I stated that it would be difficult to control, for the reason that it would have to control various parts of India with different customs and so on. To control efficiently an institution like that from one centre would, in my mind, be a very difficult thing indeed. As you say, the Bank of Bengal controls a good deal, but it would be infinitesimal compared to what you would require a State Bank, covering the whole of India, to control.

7213. Do you think that the Bank of Bengal must at present encounter difficulties of this kind, and that they would be extremely accentuated if you added on Bombay and Madras?—Yes, I do.

7214. (*Lord Kilbracken.*) With regard to your suggestion about the financial organisation and procedure of the India Office, I think I may take it that you have not specially studied the constitution of the India Office or the Acts of Parliament under which it is carried on?—That is so.

7215. In making your suggestion of the composition of the Finance Committee, what you mean is that you put that forward as a sort of ideal committee for advising the Secretary of State in financial matters?—That is my point.

7216. I suppose you base that suggestion upon your observation and knowledge of the way in which the Secretary of State deals with financial questions, and of the nature of the work that he undertakes to do?—That is so.

7217. You say that you wish to offer no criticism; but as it is part of the duty of this Commission—I do not know whether you are aware of this—to report on the system and practice of the India Office in dealing with the finances of India, I should like to ask you whether you, bearing that in mind, have any faults to find, or any suggestions to make, on that particular point?—None.

7218. You are satisfied with the way in which the work is done?—Yes.

7219. You think the Secretary of State does not undertake what he ought not to undertake, that he does not go beyond his proper sphere, and that he transacts his work in a business-like and efficient manner so far as you have noted?—I do.

7220. (*Sir Robert Chalmers.*) I should like to ask you a question or two on the subject of the metallic portion of the Gold Standard Reserve. If I caught your remark aright recently, you, speaking as a business man, said that an ordinary business man prepares against ordinary risks?—That is so.

7221. That is to say, if he happens to be a prudent man of business. There might be a difference, might there not, between the way in which a man of business engaged in commerce would deal with his liabilities, and the way in which a Government with permanent and longstanding liabilities might deal with their business?—There might.

7222. What I want to put to you, in order to get the benefit of your opinion on it, is the possibility of what might be the extreme strain to which the Gold Standard Reserve might be subjected. Shall we take two years of bad trade, famine, and so forth in India, and couple that with a crisis in the London money market; that you perhaps would agree is a fairly black prospect?—Yes, that is as dark as you can put it, I think.

7223. Would you not be disposed to agree that the maintenance of exchange is in financial matters the paramount duty of the Government of India?—It is.

7224. You would possibly agree so far as to say that there is this difference between an ordinary business man and the Government of India, that they should be prepared for the abnormal, the extraordinary risks?—Yes.

7225. They should lay down funds to meet their obligations, which they know is a very practical thing when they have the extreme strain?—Yes.

7226. Would it be your feeling as a man of business, looking at this particular form of business, that in order to be able to meet their liabilities and to discharge this paramount obligation, they might hold an amount of gold which would of course cause a loss of interest, but that loss of interest would be well foregone in the discharge of their paramount obligation?—If such a severe test came, yes.

7227. Looking at it from the point of view of the Government, you would be prepared perhaps to take a line of rather greater caution than would be taken by a prudent man of business in discharging obligations not so extensive in time as those of the Government of India?—Yes, perhaps.

7228. That would mean a greater stock of metallic gold held in lieu of securities?—That would be the meaning of that, decidedly.

7229. (*Sir Shapurji Broacha.*) About the note issue; these notes are now issued by Government and the people have become accustomed to taking Government currency notes; they would not look with the same favour on notes which are issued by a bank, would they?—I do not think so—for a time, at all events.

7230. Having been accustomed to the Government guarantee, they would think the guarantee was reduced if the note were issued by a bank?—Yes.

7231. Would there be a greater facility of promoting the quick circulation of the notes if it remained in the hands of the Government than if they were issued in a bank's name?—I should say so.

7232. Mr. Gillan spoke to you about the plethora of rupees when we had 47 crores. Suppose that plethora was brought about, not in response to commerce but against the wish of the Government of India, by the Secretary of State pushing silver; and suppose that about 20 million crores less had been coined, which would have reduced the plethora of 47 crores to 27 crores; if you knew that the plethora of 47 crores was brought about by the action of the Secretary of State, would your opinion in favour of gradually buying silver remain the same?—Yes, it would.

7233. If you had to remit to this country 30 rupees, would you not rather remit two sovereigns than three 10-rupee pieces, because the sovereign in foreign countries would be of greater value than 10-rupee gold pieces?—I would rather remit the sovereigns than the 10-rupee gold pieces.

7234. Because the rupees would be of less value in this country?—Yes.

7235. They would be charged with the exchange and also with whatever it would cost to send them back to India?—Yes.

7236. (*Sir Robert Chalmers.*) Generally speaking, would your policy as regards the coinage of rupees be the very simple one of meeting the demand which trade and the population make?—Yes.

7237. (*Chairman.*) Sir James Begbie put to you the suggestion that the demand for bar gold in India was proof of a desire for gold currency by the people; do you think that the bar gold which is now taken in such large quantities is in any sense to be considered as currency?—No, I do not.

7238. Have you formed any opinion as to the extent to which it is used as merchandise, that is, for the arts?—No, I have not.

7239. Would you think that the bar gold is used mainly either for the arts or for hoarding?—I am not prepared to say, but I should think for both purposes.

7240. If no bar gold went in, and the equivalent amount of gold was sent to India in sovereigns, would it, in your opinion, result in the melting of a great many sovereigns back into bullion at once?—No.

7241. Do you think they would remain as sovereigns?—Yes, I do. I think that some portions of the hoards at present are in sovereigns.

7242. That answer seems to imply that bar gold is not much used for the arts?—I am not prepared to say whether it is or not.

7243. (*Lord Faber.*) Do you think that the delightful little bars of gold that we have been shown appeal more to the hoarding instinct of the Indian than the sovereign does?—Possibly.

7244. (*Chairman.*) In paragraph 4 of the letter of the Bengal Chamber of Commerce, page 602, they "mention that they took exception to the formation, "in 1906, of what, until within the last few weeks, "has been known as the silver branch of the Gold

" Standard Reserve," and is now known, I think, as the Indian branch. They do not, as far as I have observed, develop that opinion. Do you take any objection to the Indian branch of the Gold Standard Reserve as at present constituted?—Do you mean as regards the 6 crores of rupees?

7245. Yes?—I would prefer to see it in the Paper Currency Reserve than in the Gold Standard Reserve.

7246. If in practical working it is found a convenience to have a small quantity of silver, such an amount as that in India in the Gold Standard Reserve, do you see any objection to it?—No.

7247. In paragraph 10 of the Chamber's letter, speaking of the practice of loaning balances and of the possibility of making loans in India, they say the great difficulty is the provision of the necessary security. They add, "That branch of the general cash balance " which is held in India is also, like the India Office " balances, greatly inflated at present. To suggest a " satisfactory method of dealing with it is not easy. " But the committee incline to the view that a partial " solution might be found if transfers, from revenue " to capital expenditure, were governed by principles " somewhat less rigid than those that are understood " to prevail in the finance department" (page 604). Could you tell me what the committee had in mind in that sentence?—I fancy it is railways.

7248. Could you explain to me a little more definitely?—The Indian community all over India—at Bombay, at Karachi, and at Calcutta—have been urging upon Government to give them more money for railway finance; and the Bengal Chamber of Commerce, observing that large balances are at present held by the India Office, think that they should be partly given out for capital expenditure, such as railways, without being so rigidly held. That, I think, is the correct meaning of it.

7249. It comes to this, that they think the surplus balances ought to be more immediately devoted to capital construction?—That is so.

7250. As regards the question of security for loans in India from the balances there, in the first place may I ask you whether, in your opinion, it would be desirable that on good security the Government should, as far as they can, lend money say to the Presidency banks in the busy season of the year in India?—I should say that it would be very desirable up to a certain point, provided they gave the Presidency banks a pull in the rate. At present they will only lend to the Presidency banks at the official bank rate, which I am afraid is not much use.

7251. To make it of use you feel that the banks must have some reward for handling the money?—Yes; I should say 1 per cent.

7252. Subject to that, do you think it would be an advantage to India if these balances could be put at the disposal of the money market in the busy season through the banks?—Yes, to a reasonable extent.

7253. It was suggested to us by a witness that if that were done, one result would be to enable the banks to hold a considerably larger amount of Government securities; do you think that would be so?—It might not be so in the busy season; it might be in the slack season.

7254. The suggestion that was made was that as they would be able to borrow against securities in the busy season, and as they would be glad to have that investment in the slack season, it would enable them to carry a larger amount of securities, because on the securities they could obtain the money they wanted to work their business in the busy season?—That is quite feasible I should think, and reasonable.

7255. That commends itself to you?—Yes, it does.

7256. Is there anything you would like to add to what you have said in answer to the questions put by the Commission?—I would like to add this on the question of Indian railway finance. I do not know whether I have made it quite clear in my evidence that it would be most desirable that Government should be prepared to state definitely that they would give a minimum sum of, say, 11 or 12 millions for a fixed period of three to five years, irrespective of what they would be prepared to allot during these years out of balances. That would enable those who are controlling the railways to make their programme in advance much more efficiently and economically. That is really my main point as regards the railways.

7257. When you say "irrespective of what they " would be prepared to allot out of balances," does that mean out of the surpluses of revenue?—Yes.

7258. When you say irrespective of that, do you mean inclusive of it?—No. What I mean is, let us have a certainty for five years of 11 millions, then the railway boards can go to work upon that. Probably, the 11 millions is not sufficient, but the balances can be allotted annually without the fixed five years' period.

7259. Do you think that the Secretary of State could safely and wisely have borrowed much more for railway construction under the circumstances of the markets in recent years than he has done?—I do.

7260. Without injuriously affecting the credit of India?—Yes.

7261. (*Lord Faber.*) Do you think that the treatment, carried out with the utmost rigour according to the agreement, of the whole of the railway shareholders in the past has discouraged investors now to take up Indian railway loans?—No, I do not.

7262. You know to what I refer—the repayment of the Madras railway people at a certain exchange which was held to be very hard at the time; you do not think that interferes with it now?—I do not.

7263. (*Sir Robert Chalmers.*) People would realise that that was a business proposition?—Quite so. That has been forgotten.

The witness withdrew.

At the India Office, Whitehall, S.W.

SEVENTEENTH DAY.

Friday, 25th July, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. MARSHALL F. REID, C.I.E., called and examined.

7264. (*Chairman.*) You have, I think, spent a large portion of your life in India?—Yes, 25 years.

7265. Would you tell me in what connection you have been there?—I have been working in connection

with the import and export business, and financing and managing cotton mills chiefly.

7266. Most of your time, I think, has been spent in Bombay?—Mostly in Bombay, but partly in Calcutta and partly in Madras.

7267. In the memorandum that you have submitted to us (*see* Appendix XXII., page 571) you draw attention to the size of the Government balances in India during the busy season. We have had it in evidence that the minimum working balance which the Government considers to be required is about 12 crores or 8 millions sterling, and that in order to be sure of having a balance of this amount in November, the Government aims at a balance of something over 18 crores or 12½ millions sterling on the 31st March. Do you think that 12 crores is too big for a minimum balance?—I am afraid I cannot express an opinion on that.

7268. May I take it on the whole that if you were assured that the Government of India had not arrived at that figure by guesswork, but that they had settled it after periodical re-examination of their requirements, you would not be inclined to challenge their decision?—That is so.

7269. Granted, then, that their view is right and that they require 12 crores in November, is it your view that they should find some means of making the extra 6 or 7 crores, which they accumulate from November to March, available for commerce during the busy season?—If it is wanted.

7270. Do you think that the trade of India would require large assistance?—It certainly would at such times as last year and the two previous years, and many others in my recollection.

7271. To what extent do you think, in round figures? Would the assistance they require reach such a figure as 3 crores?—It is very difficult to say. You would gradually feel the effect of money being taken off, and you would gradually feel the effect of it being put on. Our trouble is that it is taken off to such an extent that it seriously hampers our trade.

7272. Do you attribute the stringency, which I think occurs pretty regularly in the busy season, mainly to the fact of the activity of the Government in collecting their taxes at that moment?—I think it must always occur in India that you have stringency in the busy season. That cannot be avoided, I think.

7273. Even apart from the operations of Government?—Even apart from that.

7274. In your opinion, that stringency might be lessened, and it would be to the advantage of the trade to do so, if Government placed at the disposal of trade a portion of their balances?—Yes.

7275. Would you propose that they should lend to the Presidency banks?—I think they ought to have some system on which they lend. I do not think it is much good, unless you can rely on having the money at your disposal when you require it, and to the extent that you require it, as far as it is available.

7276. In what way do you think Government should make it available? Should they lend to the Presidency banks only, or to all banks, or to private borrowers?—My view is that they should have an organisation to which they should lend, or in which they should place their available funds for the use of the country.

7277. You mean a central banking institution?—Yes, practically that.

7278. Would you propose that they should lend to that institution without security, or simply deposit their balances with them, or that they should take security?—They would not require security, I think, if the bank were strong enough—that would be the security—and if they exercised control over the management and direction of the bank.

7279. Is the kind of institution which you contemplate a semi-Government financial institution?—Yes, certainly, with a good deal of Government control over it.

7280. That raises the question of a State bank, and and I will return to that later. Suppose that the Commission did not recommend, or did not find it desirable to adopt the proposal for, a State bank, would you still consider it advisable that the Government should lend out its balances in the busy season?—I think so.

7281. In that case, would you propose that they should lend to the Presidency banks?—Yes.

7282. Would you in that case ask the banks for security?—If Government were not satisfied with the banks' position, which they control very largely by the Banks' Act.

7283. You are, of course, aware that the Presidency banks have considerable Government balances under present circumstances?—Yes, they have.

7284. It might be, without in any way casting reflections on the security or stability of the institution, that any further sum should be required to be covered by securities?—That might be so.

7285. You do not hold a strong opinion, I gather, either way on it?—No.

7286. In so far as the sale of Council Bills has been carried on, does not that tend to release these balances for the benefit of the public?—It does.

7287. Do you think that the relief reaches the internal trade of India, or is it mainly confined to the export trade?—It can only reach the internal trade through those who have access to the London market.

7288. Do you think that through them it does reach the internal trade?—Yes.

7289. How far do you think the money reaches in the internal trade of India; does it go into the hands of the natives?—It passes from the banks into the hands of the native *shroffs*, as they are called.

7290. (*Sir Robert Chalmers.*) Would the *mahajans*, the native bankers, get the money?—Yes.

7291. (*Chairman.*) You are familar with the system of reserve treasuries in India, I presume?—Yes, to some extent.

7292. Do you suggest that it would be well to close them, and to hand over all the balances in them to some financial institution?—Do you mean to say hand them over absolutely free?

7293. Not necessarily, but to make use of the branches of a bank or banks in place of maintaining official treasuries?—I think the reserve should be maintained very strictly.

7294. I am not speaking of the reserve in the sense of the Gold Standard Reserve or the Paper Currency Reserve; I am speaking of the reserve treasuries?—Where Government holds amounts which they think they will require?

7295. Yes. Do you think that if there were a central institution it would be possible for the Government to close the reserve treasuries, and to depend upon the banks to do what is in effect their banking in the different centres?—I think it would, very largely.

7296. The Government has offered, on certain conditions, to make loans to the Presidency banks at busy times even now, but those offers have not been taken advantage of; do you know why?—I was not aware of that. I understood they had refused to lend to individuals on security; that is all I have heard.

7297. It may be a question of the terms. You said just now that, in order to make this proposal work, it would be desirable that it should be placed upon a systematic basis, and that trade should be able to count upon that assistance, I think?—Yes.

7298. Have you reflected what might happen if that had been done, and for four or five years such assistance had been rendered in the busy season, and then, owing to adverse circumstances, the failure of the revenue, or very large expenditure, the Government was unable to give that assistance in a particular year?—If the Government had not the funds available, there would be no point in asking them for it.

7299. What has been suggested to us is that trade might come to count upon that assistance, and that when it failed in a bad year, the last state of trade would be worse than the first?—I am afraid we always count on a good many things which are dependent on other circumstances.

7300. In saying that you ought to be able to count upon that assistance, you recognise, do you not, that there might be times when the Indian Government could not give it?—Certainly.

7301. There is another point which has been put to us. What do you take to be the busy months of the year in which this trade demand arises?—I think in Bengal about October to December; in the west about January to March.

7302. It has been suggested to us that Government has no surplus balance to speak of until about the middle of January?—That might be so sometimes.

7303. In that case the relief which they could give would be partial?—Yes.

7304. I presume that, provided the relief be given, you would not mind very much from what source the funds were derived?—No.

7305. Have you ever thought whether they might be advantageously drawn from the currency reserve by some increase of the fiduciary portion, instead of from the Treasury balances?—I have not considered that.

7306. A suggestion has been made to us that the fiduciary portion of the note issue might be raised, and that the whole of the amount allowed to be in a fiduciary position should not be permanently invested, but that a portion of it should be kept for loaning out on security in the busy season; would that meet your view?—I am afraid I have not considered that point at all.

7307. You say in section A., paragraph 12 (page 572), it is remarkable "that the balances and currency of India "should be under the control of authorities in India "and London who may be said to be almost isolated "from the money markets, and the chief commercial "centres of India." Where do you think the control ought to be placed?—I think it ought to be in the market itself—in the money markets and the commercial centres.

7308. Can you translate that into practical measures for me?—We come back to this State bank question again.

7309. I suppose Calcutta would be the chief financial centre of India, would it not?—Calcutta and Bombay are both very large centres.

7310. But you must have your head office in one or the other?—Probably, yes.

7311. In the past the control has practically been centred in Calcutta?—It has been.

7312. Merely as a matter of geography you could not use a better place?—I do not suppose you could.

7313. It is not in your mind, supposing the Government of India had remained at Calcutta, that the Finance Department ought to have been centred elsewhere in order to be in closer touch with banking and commercial centres?—No.

7314. Now I come to the question of a central bank. Will you tell me shortly why you make the proposal to have such a bank; what are the advantages which you think India would derive from it?—In the first place, the control of the finances would be in the commercial centres, where the money is wanted and where large financial operations take place. They would control the balances and the reserves, and make them available, as far as might be desirable, to trade. No doubt they would guide the people as to the best form of currency they ought to use, and, if it were paper currency, they would take steps to popularise it. I think it must be recognised that the conditions in India have changed a good deal of late, and that we are coming in one way to rather a critical stage. The people have become very much wealthier during the last few years, and they are beginning to learn to use their wealth. I do not suppose at any time they wanted more guidance in that matter than they do at present.

7315. Do you think that they would get the guidance better from a central institution than they do at the present time from the Presidency and joint stock banks?—Certainly I think so.

7316. For what reason?—It is nobody's particular interest to teach them now.

7317. What you want to teach them, I suppose, would be to bring their money out of the hoards?—That is so.

7318. And to turn it to profitable uses through the banks?—Yes.

7319. Is not that very much the interest of the existing institutions?—It may be their interest, but I do not think it is one of their avowed objects.

7320. India is a very big country, is it not?—Yes.

7321. *Primâ facie* I should have supposed that, with all these varying circumstances in the different parts, local institutions would be more likely to get at the people than one great central bank?—But I think you could use your local institutions equally well under central control.

7322. You say in your memorandum that you do not propose to attempt to construct the organisation; but I want to press you a little to help us in that matter. Do you suggest that the three Presidency banks should be amalgamated?—Yes.

7323. It is not an entirely new institution that you suggest should be superimposed on them?—No.

7324. But they are to be amalgamated as the foundation of a new one?—Yes.

7325. What sort of capital do you think such an institution ought to possess?—Their capital and reserves at present seem to be sufficient for their purposes. I do not think I can go beyond that.

7326. Therefore, in proposing a central bank, it is not with a view of increasing the banking capital of India, but in order to make the best use of the capital which now exists?—That is so.

7327. I suppose you contemplate that they would have local boards in the different Presidencies?—Local boards, very much with the same powers and the same duties as they have now in each Presidency bank.

7328. With a central board somewhere advising the whole?—Yes.

7329. Where would you think of placing the central board?—One would like to have the constitution of the central board such as would represent the whole country as far as possible. That being so, I do not think it matters very much for what reasons you choose any particular place, so long as this is effected.

7330. In order to make the central board representative of the whole of India, you would have to take men in close touch, I suppose, with the trade and business of places very remote from one another?—You would.

7331. Wherever you put the head office of the bank, could you, in the circumstances of India, find directors who possess the local knowledge which you have made a condition, and yet who could afford to give the time to come to that centre whenever wanted?—I am afraid I regard the directors as not nearly so important as the executive; and therefore, if the directors could be kept in touch with the executive, I think that a great deal could be done in the way of letting the board represent the whole country.

7332. You do not contemplate in fact that the board would meet weekly, or anything of that kind?—No.

7333. The real management and control would be in the hands of certain executive officers?—Certainly.

7334. The general managers?—Certainly.

7335. You propose, I think you told me, to give to the bank the management of the currency; would you entrust them with the management of the sale of Council Drafts?—Yes.

7336. Would you allow them to deal in exchange generally?—No.

7337. Would you give them a London office?—Yes.

7338. Would they have the whole of the Government balances?—Yes.

7339. Do you think that a bank which was formed merely by the amalgamation of the capital and reserves of the existing Presidency banks would be of such strength as to justify the Government entrusting it, without security, with such a very large sum?—I have said that I have rather an open mind on that. All I say at present is that the banks' funds are sufficient for their requirements.

7340. Do you contemplate that the Government would have any control over the operations of this bank?—They would certainly have some, but I think their main control would be perhaps in nominating all the directors of the central board, and possibly the managers of the branches.

7341. Do you think that the Government should nominate the directors of the central board?—Certainly.

7342. Not that the shareholders should?—No. If the Government are going to put their funds to such an extent into the hands of a bank, I think the Government should have the right to nominate the men who will be the controllers of that bank.

7343. In that case you will agree with me that the responsibility of the Government will be very heavy. If they nominate the directors who have the supreme control of the bank, the Government will in fact be themselves responsible for the safety and security of the bank?—They have got all their funds in the bank. I think Government are quite capable of taking the responsibility, and of carrying it out exceedingly well.

7344. If the Government is to play so large a part in the institution you contemplate as you have just described, is there a very great difference in fact between what they have to do now and what they will have to do then?—I think the difference is very great, because the people who control the finances at present, we, as merchants, never see, and we are not in touch with them.

7345. Would not the real difference be that the Government would be working through bank managers instead of through officers of the Finance Department?—On the spot, yes,

7346. I suggest to you that it even comes to this, that the managers of the bank would in fact be Government officials, though possibly trained in a different way, and no doubt entering the service through a different door. To all intents and purposes the men on whom the real practical responsibility would rest would be as much Government officials and as much responsible to the Government of India as the members of the Finance Department are now, would they not?—No, I think not.

7347. The directors of the bank would be nominated by the Government?—The Government would nominate to the central board.

7348. The control of the managers would be entrusted to the central board so nominated?—That is so.

7349. And the managers would act under the supervision and instruction, as far as given, of that central board?—The local managers would.

7350. And even the head manager, would he not?—I take it he would be one of the board, and a very important member of the board.

7351. Then in that case, the head manager or managers would also be nominated by the Government if he or they were members of the central board?—Certainly.

7352. Except in name, what would be the difference between their position and that of a Government official?—The manager of a bank would be absolutely independent. He would be working with his colleagues who were nominated by, but who were not under the orders of, the Government.

7353. But the Government could displace him at any moment subject to any agreement that was made, could they not?—Yes.

7354. If the Government were dissatisfied with a manager, that dissatisfaction would find expression by the nominees of the Government on the central board? Yes.

7355. Who would remove the manager?—Presumably.

7356. Why I am pressing you on this is because it has been put to us that, if there was any advantage in a central bank, the first and greatest advantage would be that it would relieve the Government of much of its present responsibility; but the organisation which you sketch seems to me to leave the Government at one or two removes still responsible for the management of the currency, for the sale of Council Bills and Drafts, and for the management of their balances; and to superimpose upon that responsibility a responsibility for all the ordinary banking business of India?—I do not think I quite regard it in that way. I think, having appointed them, they then do the work.

7357. I am going to take what is, I hope, an unlikely supposition. Suppose they managed the bank rashly and landed it in difficulties, could the Government of India be indifferent to what would befall such a bank?—Certainly not.

7358. The people of India would look to them to maintain the bank?—Certainly.

7359. Do you think it would be regarded by those who have entrusted deposits to it, or who are otherwise its creditors, as having a sort of State guarantee behind it?—I do not think so.

7360. I think you do agree that at any rate it would be so intimately associated with Government that Government could not allow it to pay the penalty of its own mismanagement?—In the Government's own interest, yes.

7361. I think you did say to me that, provided there were local boards, the local interests would not suffer through the centralisation of the supreme power in a single place?—On the contrary, I think they would benefit, because they would have a direct officer to go to always available, instead of having to approach an officer of Government who might or might not be available.

7362. You told me that in your opinion this bank ought to have a London office: would you propose that the London balances of the Secretary of State should be kept with this London office?—I think they would be under the control of the bank in India. They would place them wherever they thought desirable and expedient.

7363. As regards the management of the balances generally, apart from your desire to see them entrusted to a central bank and made available in that way for trade, have you any criticisms to make on the recent action of the Government of India or the Secretary of State?—No.

7364. Turning now to the Gold Standard Reserve, I think you approve of the establishment of that reserve?—Yes.

7365. But you think that the measures taken up to date have not gained public confidence?—That is so.

7366. And that you attribute in part to the experience of 1907 and 1908?—I do.

7367. In section B., paragraph 5 (page 573), you speak "of the uncertainty as to whether the authorities would "take the steps they eventually did to maintain the "exchange level at that time": what do you refer to specifically there?—They agreed to draw bills on London at 1s. $3\frac{29}{32}d$. I think the notice agreeing to that is dated March, 1908.

7368. At that time the Government of India and the Secretary of State were dealing with certain conditions, as it were, unfamiliar to them, were they not?—They were.

7369. Do you think there is still uncertainty as to whether they would use all their resources now to maintain exchange if exchange was threatened?—I think they would use their resources. They always intended to use their resources, and they thought their general resources were strong enough.

7370. May I take it that you yourself do not share the suspicion that "the maintenance of exchange is at "times subordinated to other interests," though you feel that other people, or the Indian public generally, are not absolutely convinced that it is not so?—I am not convinced.

7371. You agree that it is probable that they would use all their resources for the maintenance of exchange?—But they might cause very heavy loss to us all before they did so.

7372. By acting too late, do you mean?—Yes.

7373. Will you tell me what you mean by "the "suspicion which undoubtedly exists that the maintenance of exchange is at times subordinated to "other interest in the handling of Council Drafts"?—Shall I take a specific instance?

7374. If you please?—Rightly or wrongly, the general view which one has heard expressed in Bombay this year when Councils were being sold in very large quantities and very much in excess of the Budget, was that they were not being sold with any idea of the maintenance of exchange, but that they were being sold rather in disregard of exchange.

7375. The Secretary of State had large sums which he wanted to transfer over here?—Yes.

7376. Do you think he was wrong to transfer them?—We are getting on to rather another point.

7377. Do you mind answering that question? I will put it to you rather differently, as perhaps you do not quite see what I am pointing to. The Secretary of State has a continuous need for new capital for development purposes in India, and a large portion of the expenditure is incurred in England for railway material and so forth?—That is so.

7378. If he has unexpectedly large surpluses in India, can he use them better than by bringing them home to meet that expenditure?—If he has definite expenditure in view he cannot.

7379. Even if he has not at the moment definite expenditure in view, but foresees that his future requirements will be large, does he not act wisely if he brings the money over when he can?—He does.

7380. Then I do not quite see why you criticise him for having sold Council Drafts freely when the money was available in India, in order that he might bring it to this side for future use in that way?—Is there any reason to suppose that he did urgently require money then, and could not equally well bring it home later on? I have not got before me the figure of his gold balances.

7381. Would your criticisms be met, do you think, if it were possible to put the management of the Gold Standard Reserve under statutory conditions?—I think it would be better on the whole.

7382. In such a case, what are the kind of conditions that you would like to see laid down so as to insure the confidence of the Indian public in the management of the reserve?—I should like a certain proportion in gold, and I do not mind how large a proportion in short loans and such things in London. I have no definite idea as to the proportion.

7383. In mentioning those two forms in which the reserve might be held, do you desire to exclude the Secretary of State from holding securities without any time for repayment?—I distinguish between the two.

7384. In the meantime you are anxious that the whole profit of the rupee coinage should go to the Gold Standard Reserve?—That is the ideal.

7385. On the subject of gold coinage and the opening of a gold mint, I think you do not yourself favour either of those proposals?—That is so.

7386. I gather from your memorandum that your view is that gold coinage is wasteful compared with other methods of currency?—That is so.

7387. And that gold in reserve is much more effective for the maintenance of exchange than gold in circulation?—Yes.

7388. Do you think that in a time of crisis gold would come out from the hoards to support exchange?—I think it would be the very last thing to come out, because it is the one they would hang on to longest as being the best.

7389. You yourself suggest to us that some serious attempt should be made to attract the mass of unproductive wealth from its hiding places?—Yes.

7390. That would no doubt be a very desirable thing to do; but what have you in your mind as the steps which the Government might take? Is it anything more than the belief that you have already expressed that the establishment of a central bank would educate the people?—I think the effect of the organisation of a State bank would be to teach the people to bring out their money and to use their money.

7391. I suppose in many cases these hoards are held by people who are too far away from any bank, or any place where a bank is likely to come, for a bank to take the place of a hoard with them?—The treasuries are pretty widespread over the country. I do not think there is any place in India that is inaccessible.

7392. I think you suggest something might be done by raising the limit for Savings Bank deposits?—I have since learnt that that has recently been done.

7393. And you do not suggest that it should be carried further?—I think not at present; it has been raised considerably.

7394. (*Mr. Gillan.*) Are you referring to the raising to 500 rupees?—Yes, in 1912 I think, when it was raised to that from, I believe, 200 rupees.

7395. (*Chairman.*) Now I come again to a question which I touched upon just now in another connection. In section D., paragraph 12 (page 576), you criticise the practice which has recently been resorted to of providing for railway capital expenditure from revenue, or from accumulated cash balances which, as you say, is practically the same thing. I do not quite follow your objection there: do you agree that India can hardly have too much railway development?—I do.

7396. And that it is desirable that the authorities should devote as much money as they can to pressing that development forward?—Yes.

7397. I suppose you would like to see the Indian Government and the Secretary of State adopt and carry through a steady policy of development?—Yes.

7398. Irrespective of the fluctuations in the Budget?—That is the whole point.

7399. Supposing they had done that, and had then got an unforeseen surplus of, let us say, 2 millions, could they spend that surplus better than in relief of borrowing for capital expenditure or in increased capital expenditure?—For relief of borrowing?

7400. Yes, I will put it in either of two ways: Suppose you had a programme of 10 millions a year, suppose that of that you hoped to carry through half out of revenue and that half remained to borrow—I am merely taking these figures for illustration—then in a given year you find you have got a surplus of 2 millions, and the question arises what should be done with that. You might in that year carry out a programme of 12 millions instead of 10, or you might borrow 3 millions instead of 5?—I would borrow 3 millions instead of 5. You cannot change your programme, I fancy, during the year.

7401. You might keep the money in your balances for that year, with the hope of spending it as an addition to the 10 millions of the next year?—You might.

7402. Would you object to that?—No, I would not object to that.

7403. Provided that they are unforeseen windfalls, and provided that they are made available as rapidly as possible for railway construction, you would not criticise that policy?—No.

7404. The essence of your criticism is that there should be a definite programme which should be irrespective of the fluctuations of the Budget?—That is my point.

7405. Do you think that more money could be raised in India for capital purposes than has been raised in past years?—I think so, certainly.

7406. Would you raise it in rupee securities?—Yes.

7407. In your memorandum you suggest the issue of railway bonds: I am not quite certain whether you mean short-dated bonds?—No; I mean the ordinary debentures, or such like.

7408. How much money do you think you could get in India for these purposes?—There is no end to the amount on which we could count.

7409. At what rate of interest?—If they go on getting wealthy as they are doing, I do not know how low you will get it.

7410. Who are the people who will take such loans as are now issued?—Very largely, to begin with, the Presidency banks, but increasingly up-country, I consider.

7411. You think they will be taken by the Presidency banks or other banking institutions in the first instance; then will they be passed on to the small people or will they be passed on only to the big people, do you think?—I have no very definite information, but I gather that they will be passed on to both small and large.

7412. Do you think there is a growing tendency on the part of the Indian people to hold securities of that kind?—I believe so, and I believe there is an enormous amount of money that will be available if can be got at.

7413. Do I understand you to think that it would be possible, with more activity perhaps I should say in

advertising, to induce a good deal of money to come out of the hoards, and to come into securities of that kind?—I think a very great deal.

7414. We have it in evidence from one witness that both the Mohammedan and Hindu laws of succession and customs, for different reasons, cause a good deal of gold to be hoarded?—I have no experience of that.

7415. Do you desire to recommend the creation of any new class of securities in India differing from the rupee securities that have been issued in the past?—Possibly; but it is a very complicated subject, which one could not express an opinion on without a great deal of enquiry.

7416. You would like to leave that to the managers of the State bank?—Yes.

7417. (*Lord Faber.*) Referring again for one moment to the central bank; if a central bank is formed, and that bank makes use of large Government balances, at present, at any rate, that bank must be practically a Government bank, and, therefore, would not relieve Government officials of their great responsibility, would it?—I hold that, having transferred the management of the bank to officers whom they approve, Government would then have fulfilled its duty.

7418. The officers would be really officers of Government, and not officers of the bank, would they not?—They would be officers of the bank nominated by Government.

7419. But the Government would be the central figure, because the Government would supply a great deal of the money?—Yes; and that is why I say they must nominate—because they supply the money.

7420. The difficulty, as the Chairman has said, is to many of us that, although we perhaps should like to relieve the Government of what may be more properly called banking business, at present we think that the preponderating influence of the Government money is so great that we cannot give them that relief. Is that your opinion? Apparently you think the Government can be divested of authority although the Government would find most of the money?—Yes.

7421. Do you think that when the country advances further and becomes richer, the Government balances may not be such a preponderating influence, and then the Government supervision would not be so necessary? What is your opinion of that? This is a growing country, is it not?—Very much so.

7422. Therefore, I say once more that when you get the condition of things that the Government money is not a preponderating force, then you may get outside commercial aid which at present you cannot get. At the moment a central bank would be practically a Government bank, would it not?—To some extent.

7423. In answer to the Chairman just now you made an interesting statement to the effect that you thought railway debenture bonds would be greedily taken up in India?—I think they would.

7424. Do you think that, as the Chairman said, the way to get at the hoarded wealth of the country is to offer the public railway bonds at a fair rate?—I think so. They have shown already in the way they have taken feeder railway shares that they do like that sort of investment. One small company was oversubscribed before it actually asked for subscribers.

7425. (*Sir Robert Chalmers.*) What would be the relation, in your opinion, between the resources of the bunnia and the money market in India? Is there any relation; if so, is it a close relation, or how would your experience lead you to explain it? Does he borrow from the Indian money market as we have been speaking of it?—He borrows, I think, from the bank. The bunnias go to the bank to get their finance, which they then spread up-country.

7426. It is from the European money market that some part of their funds come?—I think so, largely.

7427. Do the rates they charge bear any reference or resemblance to the rates they pay?—That is largely a matter of to whom you lend, is it not? The rate depends on the borrower a good deal. To a good borrower, I suppose, they would charge, perhaps, 1 per cent. more than they can borrow at, and to a bad borrower, perhaps, 5 or 10 per cent. more than they can borrow at.

7428. Do you think it is within those limits, and do you think there is really an intimate relation between what I may call the native market and the European market for money?—Yes; but the substantial borrowers are not very numerous, and, therefore, the rate in the bazaar generally is high.

7429. Coming now to the question of the State bank, is there any movement on the part of the Presidency banks to be amalgamated?—Not that I know of.

7430. Do the public clamour for it?—The matter really had not been raised before I left India. I left India in April last, and I have heard nothing of it since then.

7431. (*Sir Ernest Cable.*) Did I understand you to say that the bunnia would actually charge the ryot only about 1 or 2 per cent. more than he pays to the shroff?—I said up to 10 per cent. more in the case of the bad borrower, or even more.

7432. Is it not the fact that at the present time the ryot has to pay about 25 per cent. to 30 per cent. for his money?—I should not wonder.

7433. In view of this, do you think that a State bank would relieve the situation? Do you think that, by financing agricultural societies and so forth, it might be a benefit to agriculture and to the country at large?—Yes; and it would make money circulate more freely, through having branches up-country where the treasuries are now.

7434. You spoke about educating the people: do you mean by that that a State bank would educate the people in the use of notes and cheques? Are you thinking of the ryot?—The ryot, if he had any money, and the rather better class, the small trader for instance.

7435. You said just now in reply to a question of Lord Faber's that you thought any amount of money could be borrowed in India; would that be the case at the present rate of interest, 3½ per cent.?—3½ per cent. or 4 per cent.

7436. You said that increased borrowing would bring out the hoards; you expected that the hoards would come out more and more in response to these loans?—The loans are not there. If the people were taught that they could get good security, they would then lend on that good security and make money thereby. That is my view.

7437. The hoards that you have referred to, I imagine, are the hoards held by the princes, not by the peasants?—I think all the hoards—princes' and peasants', workmen's, and everyone who has got a few sovereigns, or who has got his gold ornaments, or who has got his rupees or currency notes. It would be a good thing if they were taught, or had a chance of learning, how to utilise their funds.

7438. With a view to this, I suppose it would be a very good thing if the denominations of the present Government paper were made smaller?—Yes.

7439. That would be a useful suggestion from your point of view?—Yes.

7440. You made some remarks in answer to the Chairman, with whom I think you agreed, to the effect that the Government would be responsible for the central bank?—In the event——

7441. In the event of disaster I think you said the Government would be responsible?—I think the Government of the country is more or less responsible, is it not, to keep itself and banking concerns together. It would be no greater responsibility.

7442. (*Sir Robert Chalmers.*) Do you affirm that about this country—that the Government is responsible for the Bank of England?—I am not a banker.

7443. (*Sir Ernest Cable.*) In every country where there is a State bank the Government is very much interested in the welfare of the bank, of course?—Very much.

7444. So it is not a novel position?—No; the prosperity of the country is involved in the bank.

7445. And the Government of India are also involved in various other undertakings, such as the port trusts. In these cases, I think the Government,

although there is no actual responsibility, still have a moral responsibility, and they could not possibly allow any port trust to come to grief?—Quite so.

7446. They have the same responsibility in various similar undertakings?—Quite so.

7447. With regard to the situation of the bank, I think you said that Calcutta ought to be the place. Supposing there were very great local jealousies to be overcome between the various Presidencies, would you see any objection to the head office or the head directorate being in some neutral centre?—It must be in a commercial centre.

7448. Do you think it must be in a commercial centre if each of the local boards had as full powers to carry on as existing boards enjoy, let us say?—Yes; otherwise I think it would be out of touch with the markets, which is the whole point.

7449. You want the central board also to be in touch with the market?—Certainly. If a difficult situation arose, you want at once to communicate with your manager, and get his decision at once.

7450. Let us take the present boards in each of the Presidencies. Supposing they were continued with the addition of one Government officer on each board, for example, the Accountant-general of each Presidency: that would secure Government supervision at each of those branches, would it not?—I do not think Government need worry much about the local boards. Boards would have certain statements put before them and certain matters referred to them, but the management would be in the hands of the manager, who would, according to my view, if he were the manager of a local branch, have been appointed with the Government's approval, anyhow.

7451. The central board might be composed, let us say, of a chairman, who might be an English banker of eminence who would be attracted by a large salary and assisted by a managing director, who might be promoted from one of the branches in the meantime. Associated with them might be the Financial Secretary. That would give you the Government atmosphere that you suggest, would it not?—That would.

7452. And it would not be a preponderating influence. If that central board travelled from Presidency to Presidency from time to time, much as the present Minister of Finance and Commerce does, would that not meet your view that it should be in touch with commerce? The central board could travel from their central office, wherever it might be, once or twice every month round the presidencies?—I think that would be rather difficult, and rather a waste of their time.

7453. The present Minister of Commerce travels a good deal, does he not? He keeps in touch with the whole trade of the country by travelling?—Yes, he travels round like that. I do not think they would require to travel if they had their main office in one place. They would work from there, and when the busy season was over in Calcutta they could go to Bombay, and stay there during part of January to March, and then go to Madras, and so on.

7454. I was only trying to get over the difficulty, which, of course, will be inevitable in making this amalgamation, that there may be local jealousies as to where the head office may be situated?—I think they will pass over in a year or two. I should hardly bother about the local jealousies if you are going to run a bank for the sake of India.

7455. (*Mr. Keynes.*) The principal criticism that we have heard against the central bank is the difficulty of getting suitable directors; and, secondly, the difficulty of adapting the practice of the central institution to the needs of the localities. I should like to take the second of these points first. You favour, I think, local boards?—Yes.

7456. You are a director of the Bank of Bombay now, are you not?—I was till I left India.

7457. So that you know what functions the board of a Presidency bank actually performs?—I do.

7458. Would your new local boards differ substantially from the present boards of directors?—I should say in no respect whatever.

7459. Could you tell us a little more about what the functions of the boards are in relation to the executive? Do they actively interfere, or are they rather channels of commercial communication?—I suppose the main functions of the directors are consultation and general supervision. They consider and discuss the various statements and questions which are submitted in ordinary course; they advise on points brought up by the executive, and inquire as may be necessary into matters affecting the policy and business of the bank. But it is not a part of their business to interfere in the daily work of the bank's executive.

7460. If there were to be a central bank, you do not see any reason why the local boards should behave any differently from what they do now?—No.

7461. Who would appoint the local boards?—If you had public shareholders I should think they would want to have some voice in the appointment. My suggestion would be that all shareholders who wanted to vote for directors should register in a certain district, and that they should appoint the directors for that district; that is to say, if you had some 500 shareholders in the Bombay Presidency, they would vote for the Bombay directors; and so on in Bengal, and so on in Madras.

7462. It was that which you had in your mind when, in answer to the Chairman, you said that local boards should be appointed by the shareholders, but the central board would be wholly nominated by Government and would have overruling powers?—That is my idea; but you would not expect a central board to interfere with the local working of the bank, except on broad principles.

7463. Would this central board which is nominated by the Government include commercial people or not?—If possible it would include one or two.

7464. Would it be a small board or a large board?—A small board, I should say.

7465. With a small number of Government representatives and a small number of commercial representatives?—Perhaps five—two Government representatives and three traders.

7466. With what sort of questions would it chiefly concern itself, as distinct from the local boards?—It would have to deal with the currency generally. A point I make a great deal of is the education of the people as to currency, and the working out of the policy that should be pursued in the different branches in regard to these matters. Of course it would have to lay down to what extent the banks should be interested in any particular industry or any particular investment; and I presume it would have to deal with the funds of the bank as regards movements to London and backwards.

7467. Would it have a bank rate policy for the whole of India?—I am afraid I do not understand the expression.

7468. Would it determine what sort of bank rate ought to be established at different times all over India and aim at making this effective; would it do that?—It would do that, but it would not necessarily be the same rate in every town.

7469. I suppose that the central or head office would have no direct dealing with the public at all?—No.

7470. It would merely be the seat of authority over the local offices?—That is so.

7471. So the actual locality of the head office, so far as the public is concerned, would be of no importance?—No, excepting that it should be in a large centre.

7472. The chief importance of where it is located would lie in the fact that if it is at Calcutta it would be rather difficult for Bombay people to be there, and *vice versâ*?—Yes.

7473. If you had a head office which has no direct dealings with the public, but is merely a ruling authority, would it be difficult, do you think, for it to move about?—I think it might be very inconvenient to move about freely.

7474. I did not mean, of course, that it should have a habitation as it were in several places; you mentioned, I think, earlier in your evidence that the busy season in Bengal was on the whole from October to January, and in Bombay on the whole from January to March?—Yes.

7475. Would it be feasible for the board to sit in Calcutta during the first three months and in Bombay during the next three months?—I think so. But if Calcutta were the centre, they naturally would not want to be so long in Bombay as in Calcutta. They would not aim at dividing the time in that way.

7476. The effect of the central board on the local board in the place where the central board was situated might work both ways. If the central office is in Calcutta, you might say that would leave less independence to the Calcutta local board, or you might say it would put the Calcutta local board in a better position to impress its views on the central board. Which of those views do you maintain?—I regard the local boards as being not interfered with, but as having the advantage of referring matters for immediate decision and getting an immediate decision from the central board; so that whether they are in Bombay or Calcutta is immaterial to my mind.

7477. Would you have more than two local boards? Would you, for instance, think of setting up one in Rangoon?—I think very likely.

7478. And one in Northern India, or not?—I doubt it. I think that is a matter on which you should move slowly, according to experience.

7479. You might think in course of time that it would be advisable to have a new local board somewhere else?—You might think so.

7480. I come now to the question of Government responsibility. You do not advocate the bank so much as a way by which the Government would get rid of its responsibilites, but as a policy involving the improvement of the machinery through which it exercises them?—That is my whole point.

7481. The Chairman suggested to you that in a sense the executive officers of the bank ought to be regarded as the servants of the Government; obviously, in a sense, the Chairman's suggestion has to be answered in the affirmative?—Yes.

7482. In what, in your opinion, would the distinction consist; is it that the officers of the bank are to be outside the machine of Government?—Yes.

7483. So that, although the executive officers would be subject to dismissal, they would not have to transmit their individual proposals for sanction in the way in which Government officers have to do; is that your point?—Yes, that is my point; they would not have to refer to Government on any point which arises unless they choose.

7484. The bank management would act on its own without reference to the Viceroy's Council, although it would be watched by some representative of the Viceroy's and be subject to dismissal by him in the event of very grave misbehaviour?—That is exactly my view.

7485. (*Sir Ernest Cable.*) Do you suggest that the executive of the central bank should be dismissible by Government?—If they can be nominated, I think they can probably be dismissed; but that is a matter of agreement, is it not, between the bank, the Government, and the servant? I should certainly like someone to have the right to dismiss an inefficient manager.

7486. (*Chairman.*) I think in answering my questions you indicated that you did not think the ultimate control should be left to shareholders?—Certainly not.

7487. (*Mr. Keynes.*) I suppose the position would be that the management would be subject to dismissal by the central board, and the central board would ultimately be under the orders of the Government?—In that respect, yes.

7488. So your main point is that you want some officials existing as a separate entity from the ordinary Government machine, and able to act on details without reference to it; is that so?—That is so.

7489. I also understand that on the board of directors, while the directors would be nominated by the Government, some would not be Government officials but would be commercial persons?—Yes; I should prefer the majority not to be Government officials.

7490. Looking at the proposal mainly not from the point of view of the Government, whether it would lessen or increase its responsibility and so forth, but from the point of view of the country and its general development, what have you to say about it?—I think it would make all the difference in the world if the bank made its main object to develop the country and to make the country progress, as I believe it can do. As I have said before, the change in the conditions in India during the last few years has been very remarkable. I quoted a figure in my statement of some 60 millions in gold going into India, simply on account of the balance of trade. That was sheer profit. It seems to me that that money should be got hold of and used for the good of the country, and it seems to me that a bank such as we are speaking of would be the body who would do it. By getting hold of the money, I mean getting people to invest their money in railway and other concerns and so making the country progress, as it is bound to do. But if something is not done, I do not know what the effect will be, if money is going to go on pouring into India and sinking out of sight, and lying there; it is impossible to say what the effect will be not only on India but on international finance.

7491. Is it your opinion that such a bank would attract any new classes of clients which the Presidency Banks do not attract?—I take it that it would have its organisation much more widely spread, and therefore it would get at people who are now out of reach of the banks.

7492. Do you mean that if it opened branches wherever there is now a Government Treasury, it would be having five or six times as many branches as the Presidency Banks now have?—Yes.

7493. Is there any prospect of its being worth the while of the Presidency Banks to open branches at all widely?—I am afraid not.

7494. Do you think that this matter of getting branches widely spread all over the country is absolutely contingent on the establishment of a State bank?—That is my opinion.

7495. I think you suggest that one of the duties of a State bank was to popularise investments and the use of paper currency?—Yes.

7496. Is that also contingent on having this great number of branches all over the country?—It would be a part of it, and a very important part.

7497. Would it be possible, do you think, for these numerous branches to push small Government Bonds with coupons which were payable at the branch?—Yes.

7498. They could push them upon the small investors?—Yes.

7499. So that the issue of Government loans, and so forth, to small investors would be part of the business of this bank?—Yes.

7500. In your own mind, when you are advocating this bank, are you thinking mostly of the details of the machinery of Government and so forth, or are you thinking chiefly of the various commercial activities of the great branches of trade all over the country?—As I have said, I think India is changing rapidly, and that we have in front of us a condition which we have never had before, and possibilities which we have never had before. Of course that is only my own feeling and my own opinion, and I may be optimistic.

7501. I have one other question not connected with a State bank. I understood you to say to the Chairman that you did not feel perfectly secure that the Secretary of State would always maintain exchange at 1*s.* $3\frac{29}{32}$*d.*?—That is so.

7502. Would a formal notification by him offering to sell Council Bills without limit at that rate increase your confidence?—It would.

7503. Would it actually influence you in your business?—It would.

7504. In exactly what does your doubt consist?—Are you doubting whether he would be able to support exchange, or whether he would vacillate as to the exact figure at which he would support it?—From experience our trouble is as to when he would support it. Notwithstanding his support, we have suffered very heavy losses.

7505. Then you are hesitating not about his resources but as to his judgment?—I suppose so.

7506. It is not that his resources are insufficient?—Conditions have recently changed to the extent that he has very much more gold in reserve altogether as against 1908. I suppose he has in the Paper Currency Reserve some 25 or 30 millions more in actual gold than he had then. So one does feel safer to that extent than one did before.

7507. It is not his ability to support exchange that you doubt, but as he is not bound to a figure, you do not feel certain of the figure he would take in the next serious crisis?—That is it.

7508. So your hesitation would be met almost completely by a binding notification?—And by a declaration of policy as to the lines he was going to follow in working his reserves and building up his reserves.

7509. Having made that declaration, you would not wish him to increase his reserves much beyond their present figure, I take it; or would you wish that also?—I think there are now some two millions in gold, and I should like to see very much more than that out of the 22 millions. We have been rather brought up in Bombay in the idea that we ought to have the whole lot in gold. That is an ideal, and I think beyond what we will ever get; but we certainly want more than two millions in gold and in liquid cash. On that point I should like to repeat what I have mentioned in my memorandum. To talk of limiting the reserve is very disturbing and it is not very helpful, because we have heard of 10 millions, 15 millions, 25 millions. Presumably, if my idea of development goes on, it may be 30 millions or 35 millions or 40 millions in the next few years. Such ideas coming from Government officials in official speeches and so on, are rather disturbing, and I do not think they can be sound.

7510. There is one point I should like to go back to about the State bank. If Government balances, as has been suggested, and some part of the Government Reserves ought to be loaned, I suppose they could not be loaned according to a cast-iron rule?—Loaned by the State bank or apart from the State bank?

7511. Apart from the State bank they could not be loaned according to cast-iron rules?—No.

7512. Some element of judgment would be involved on the part of the responsible officials?—Certainly. It would be at their option, and the Government would lend just as much or as little as they chose.

7513. Under existing circumstances do you think the officers of the Government are in a position to get the information on which they could base a sound judgment as to that?—As to what they should lend?

7514. As to what and when, and on what terms, and to whom?—No, I do not think they are.

7515. You would introduce an element of expert knowledge into their counsels by the State bank?—Yes.

7516. (*Sir Shapurji Broacha.*) You have talked about the stringency which occurs in the busy season, and about educating the people; what do you mean by that?—I have been trying to explain; I have answered several questions as to what I meant by education.

7517. Educating them to make an increased use of notes? Do you think a State bank will help in increasing the circulation of notes?—In my opinion it will.

7518. In section D, paragraph 9 (page 575), you say "Distrustful as the people of India no doubt are, by "nature and by tradition, of any security short of "possession," and so on. Do you think they would prefer a bank's note in preference to a Government note? A currency note is guaranteed by the State now; do you think these people would feel equally secure if the note were guaranteed by a State bank? Would they not think that the Government would be shirking their responsibility in putting it on to a State bank?—I have not worked out myself the question as to the form the currency note would take under a State bank; I have not considered that question.

7519. Is the circulation not fast enough now?—It is quite fast, but it might be very much faster.

7520. Have you the experience that in India it goes very much faster if issued by a State bank, than if issued by the Government?—I have not.

7521. They have had experience of the Government for the last 51 years, and, as you know, Indians are a suspicious people and full of suspicions?—Yes, they are.

7522. (*Chairman.*) Do you think it might be necessary to keep the direct Government guarantee on notes?—I had not contemplated anything else.

7523. (*Lord Faber.*) I think what Sir Shapurji really means, is that if you circulate a note through the State bank, the natives might think it had become an ordinary bank note, instead of being a Government note. Do you not think there is something in that?—Yes.

7524. (*Sir Shapurji Broacha.*) You want the Government to appoint the directors of the State bank?—Only of the central board, not of the local boards.

7525. That means that the shareholders are to give their money to the Government to invest for them at the best rate of interest?—Not to the Government, but to the bank.

7526. If the State appoints the directors, they are Government directors?—I have been trying to distinguish between the two, as far as I can, all the time. My point is that they are distinct; of course, I may be wrong.

7527. The Government appoints the accountant-general, and the Government appoints the directors of the State bank?—Yes.

7528. The Government is responsible for both?—The Government appoint many other people as well.

7529. But the Government has to bear the responsibility of his misdeeds?—Such responsibility as is involved in his misdeeds.

7530. Do you know that there were State banks before?—I did not know that there were in India.

7531. There were three State banks at one time. There was the Bank of Bombay, in which the Government held shares and had two directors; the same with the Bank of Bengal, and the same with the Bank of Madras; but the Government felt the danger of those institutions and severed their connection with them because the responsibility was too great?—That was 40 or 50 or 60 years ago, and the advance in the finance of the country has been very considerable in the last 50 years. There has been a considerable change, and, in my opinion, it will change still more.

7532. The responsibility will be larger?—But the machinery is more complete, and the danger is much less.

7533. Do you know that the Bank of Bombay refused to amalgamate with the Bank of Bengal, although they were offered 500 rupees per share?—I did not know that.

7534. All the merchants, I think, including your firm, went up to the Governor to ask him not to put Bombay under the control of the Calcutta Bank. Do you think these local jealousies are now quite obliterated, and that Bombay traders do not think Bombay is the first city in India?—I do not think it is a question of Calcutta and Bombay at all. My proposal is that Bombay shall have a local board, Calcutta shall have a local board, and Madras shall have a local board, exactly as they have now.

7535. There must be a central board, and wherever that is placed, do you think people will believe that the Bank of Bengal has the same independence as the Bank of Bombay, or the Bank of Bombay has the same independence as the Bank of Bengal, supposing the central office were in one of those cities?—I think the aim of anything that would be worked out should be to avoid hurting the feelings either of Bombay, or Calcutta, or Madras.

7536. Do you think that the genius at the head of the central bank in Calcutta, say, will look to the commercial credit of Cape Comorin and the commercial credit of the Northern Provinces, or will he judge by the state of affairs around him?—People who have got to do business which is scattered over the country, usually try to look at it from all the points of the country.

7537. The Government directors will be responsible for the misdeeds of their managers?—Certainly.

7538. I do not suppose there is an instance of one bank managing a whole continent. Do you think the Bank of France could do that?—We are dealing with rather new conditions and new circumstances; we are dealing with a very peculiar place, India.

7539. Do you know that the Bank of France has a greater facility for acquiring knowledge of the whole country, because it is in a central place and the people on the board know the different districts of France and their credits; and that with the Bank of England it is the same thing? What would you offer in the shape of that to this central bank?—We think we know a good deal about the conditions of India.

7540. Do you know as much of the conditions of India as the bank directors here know of the credits in the Lincolnshire district, and the credits in the south of England, or in Manchester and Liverpool? Do you think bank directors in India are in the same condition to judge of the credit of Pondicherry, Cape Comorin, Lahore, Karachi, and all those places?—I have said that the local credit and the local finance would be in the hands of a local board, who are in a position, as I think, to judge of the credit of the people with whom they have to deal.

7541. You say you would do it for the education of the people; do you think this central bank will help agriculture?—I think it will help.

7542. Do you think the Bank of England does away with pawnbrokers? To go to another point, do the bunnias always charge 25 per cent? Is not their charge regulated according to the credit of the man?—That is what I have said.

7543. Do you know that merchants now buy supplies direct from the agriculturists, and that the agriculturists are not so much in the hands of the bunnias now as they used to be?—I think it is very likely so.

7544. In the Punjab they will not have the middleman now, as they deal direct with the exporter; is that not so?—I do not know.

7545. Do you not think the co-operative banks would better help agriculture than a State bank?—I should think the State bank would help co-operative banks, and so would help agriculture.

7546. Do you know that there is a co-operative bank in Bombay which does help small co-operative societies in the Deccan and those places, and that its board is composed of native gentlemen who have a knowledge of the localities?—I have mentioned these co-operative societies as being the means of reaching the people.

7547. I think this education you speak of will come not through the State bank but through the co-operative banks, because, if you send one manager of the central bank to one place and another to another place and they do not know the language of the country, how could they speak to the people, and how could they educate them? Do you think they could induce more deposits to be made with the State bank? Are not the Presidency banks just as good?—The equivalent of the Presidency banks would still be there.

7548. Does the State bank incorporate the Presidency banks?—The State bank would be there in the place of the Presidency banks, and the organisation which is now there would still be there.

7549. We want more certainty for the maintenance of exchange by the Secretary of State, do we not?—Yes.

7550. And why we want these stringent conditions in regard to the quantity of liquid gold is to be assured of the par of exchange in all emergencies?—That is so.

7551. People would be less urgent in asking for these things if the Secretary of State were to guarantee for all time the par of exchange at 1*s.* 4*d.*, that is, at $\frac{29}{32}$ on one side and $\frac{3}{32}$ on the other?—Yes.

7552. And, of course, the people will not have confidence in any remedies until they have more or less a liquid gold reserve to the extent to which the Government are able to accumulate?—That is so.

7553. (*Mr. Gillan.*) There are two small points in your memorandum that I wish first to refer to. In paragraph 10 of section A (page 571) you say, "I am told "they declined a request for a loan of 50 or 100 lakhs of "rupees on the security of Government paper." That rather leaves the impression that the Government adopted an obstructive attitude, and not only were against the general policy of lending money, but when the application was actually made to them they refused it. Apart from the general policy the Government would always have to consider also, in the case of any particular application, the status of the applicant?—Undoubtedly.

7554. That may be a point to be taken into consideration?—Undoubtedly.

7555. In paragraph 7 of Section C (page 574) you say, "Payments by currency notes come next, and by far "the greater proportion of the balance of payments is "made in this form." Are you there referring specially to the Presidency towns?—To my own business, and others from whom I have enquired.

7556. That probably is not the case in currency transactions outside the Presidency towns?—I should think very likely.

7557. In paragraph 12 of this same section C (page 574) you say that it should be borne in mind that it has been nobody's special business in the past to educate the people in currency matters. I am not clear yet what methods of education you would suggest. I can understand that the Government or a bank might encourage different forms of currency, or that it might increase the facilities for the encashment, we will say, of currency notes; but what further points had you in mind?—My main point is that you should endeavour to educate the people as to the proper currency to use; and that is done, as most education is done, by telling people; one tells one's own particular merchants that one deals with, they tell their friends, and so on.

7558. As far as that goes, would the Government not have an efficient organisation in its Treasuries and Treasury officers and district officers all over the country?—They might have an organisation, but I have not heard that Government has ever told their officers to teach people that.

7559. You think from that point of view a State bank would be more effective?—Yes.

7560. That raises another rather important point. If you are going to educate the people, you must have some clear idea of what you are going to teach them?—Certainly.

7561. The Fowler Committee, as you know, looked forward to an effective gold currency?—Yes.

7562. They said it was not possible at the time, but they hoped it would be established in the future?—That is so.

7563. When we come to examine what can be done to further that policy, we find that as a matter of fact there is actually very little that can really be done, and it remains to a large extent an ideal; but the ideal which one has in one's mind must influence one's action at various points?—Certainly.

7564. What is the ideal to which you are tending? Is it this effective gold currency which the Fowler Committee spoke of?—No, I do not agree with that; I am not in favour of that.

7565. Would you be prepared to put aside that policy definitely, and say that you have abandoned it?—Abandoned the gold currency?

7566. Yes?—I say encourage notes for everything, and I say avoid gold because of the risk of losing gold.

7567. Do you propose that the Commission should say that they so determine?—That is my suggestion, and I have said so very clearly.

7568. Next with regard to the reserves which are behind the currency policy in any case. You say in paragraph 5, section B (page 573), that there is a great lack of confidence; do you wish that the Commission should formulate and declare a policy?—Yes.

7569. In reply to the Chairman you said you would be prepared to lay down certain regulations governing the Gold Standard Reserve, and in reply to Mr. Keynes I think you said that one of the regulations would be

to authorise the Secretary of State to sell unlimited amounts at a certain fixed rate?—That is to gain our confidence as merchants in the stability of exchange.

7570. Is there any other point of policy which you would like to have?—What I have said is that I should like to see a larger proportion of gold or cash statutorily fixed in the Gold Standard Reserve than there now is. We have now, I think, some 2 millions out of 22 millions.

7571. So that your declaration of policy would refer to this notification of unlimited sales at a certain fixed rate, and also to the constitution of the Gold Standard Reserve?—Exactly. I should like to see a certain sum fixed as the minimum of the gold or the equivalent of the gold in the Gold Standard Reserve and to have no limit put to the amount to which the Gold Standard Reserve would go.

7572. (*Sir Robert Chalmers.*) In metal?—I do not say no limit in metal, but I say a minimum amount, or a minimum proportion in metal; short loans or gold.

7573. (*Mr. Gillan.*) With regard to the State bank, I think your general position is that after all Government and trade have enormous interests in common?—Their interests in common are very large.

7574. That at present those interests are not properly knit together, and that some effort should be made to improve the organisation?—That is so.

7575. There was a point that was not clear to me in an answer that you gave to Mr. Keynes. You said, I think, that the extension of the branches of the Presidency banks was contingent on a State bank being founded?—I think that is very likely so.

7576. Why should that be?—A State bank supported by the Government would be able to extend its operations into places which a bank with shareholders would not feel itself justified in doing. A Presidency bank is a shareholders' bank which is making money for its shareholders, and it is not, in the same way as a Government bank would be, heavily involved in the education and development of the country.

7577. I quite see that; but would it not be possible to place the Government balances in the same way with the Presidency banks?—I have agreed that that would be an advantage.

7578. Would that not facilitate the extension of these branches?—If Government placed these balances with a guarantee that they would remain, but at present they are practically money at call.

7579. I do not know what distinction you are drawing between the Presidency banks and a single State bank in that matter; I am only talking now of making over the Government balances generally?—Suppose we had, say, some 18 crores taken as your minimum figure, then if you had 25 or 26 crores it would be admitted, I suppose, that about 7 or 8 crores would be available for the country. If these funds were placed in the hands of the Presidency banks, and Government undertook that they would not remove them for two months or three months, they would be of great value; but if Government merely paid in 30 lakhs to-day and 40 lakhs to-morrow and took out 60 lakhs the next day, then that money is of no real value from the bank's point of view.

7580. (*Lord Faber.*) Is your argument that a State bank would open branches at unremunerative places where the Presidency banks would not do so because of their shareholders?—That is so.

7581. Would not the people of India suffer in consequence of the Government banking at a loss in certain places?—With very many big concerns in this world trade has to be carried on at a loss in places in order to carry it on as a whole. In some parts you must take a loss, but the advantage given to you in other directions is very large, and though you must first of all work for a year or two at a loss in certain places, you may eventually come on to a paying basis if you could influence the people, as I believe you would influence them, by approaching them and giving them advice as to investment and loans.

7582. Would you really go to these unremunerative banking places in order to give them education?—Yes, and you would possibly make them remunerative; but I do not think the directors of a Presidency bank would always feel justified in doing that.

7583. (*Mr. Gillan.*) In reply to Mr. Keynes you explained generally the sort of work that would have to be done by the central board which you suggested for the state banks. Your position is, as I said, that there are certain defects at present and that it should be possible to find some remedy for these defects, not necessarily your scheme or anybody else's scheme, but some remedy should be possible?—Yes.

7584. We can get to a conclusion on that subject only by examining the different schemes that are set before us. With regard to this central board the difficulty that strikes me is this: How often do you suppose it would be necessary for that central board to meet?—Once a month might be enough, on the other hand they might have to meet every week or every day at other times. In times of crisis and difficulty obviously they should be in the closest touch, but under ordinary conditions, such as we very often find, fortunately, in India, they need never worry about meeting at all.

7585. You would have on that board, we will say, two Government officials?—Yes.

7586. You say it is essential that they should meet in Calcutta, Bombay, or some other commercial centre; have you considered the difficulty of those officials being away from their department?—Government have a number of high officials in Calcutta and in Bombay, and they might, in view of the enormous interest in the bank, put an even higher official there and find work for him to do in, say, Calcutta or Bombay.

7587. Did you mention the Financial Secretary?—No, I mentioned no officer.

7588. Would it not be almost essential that you should select for this central board some official who is not at the headquarters of the Government of India?—Yes, I suppose it would.

7589. The fact remains, of course, that in all questions of principle the Government would still be the authority?—No, I think not. They have handed the business over.

7590. I mean on broad matters of currency policy and so on?—I take it that they would work as banks and Governments often do, and that they would be able to consult each other. The directors of the bank would not want to do some foolish thing or to act contrary to the Government's wishes; in fact, the bank would not want to act contrary to the Government.

7591. I take it that in all these matters of financial or currency policy it would be for the Government to decide and not the bank?—I do not see how you could have your bank if it did not decide. I do not think you will get a first-class banker to go out to India and do this work if he is to be hampered and overruled.

7592. Supposing the question were raised of a change in the currency system; the bank could not decide and carry out that change of itself; that sort of change would have to be decided on by the Government, surely?—I suggest that a case of that sort, an important point which you can foresee, should be mentioned as one which should not be decided without the consent of the Government. If you should make a recommendation in that form, I should suggest such important points should be included in your recommendation. You could say that the Government should reserve to itself the right to approve any alteration in the currency.

7593. There would then be cases which ought to be reserved for the consideration of the Government?—I think these should.

7594. They would be decided by the headquarters' staff of the Government of India?—Presumably.

7595. Who would not be represented on the central board?—Unless Government thought it worth while to create a post in Calcutta, if they have not got one, in which case they could have a member of their Finance Department or a man who has had great experience of their Finance Department.

7596. You think there is a difficulty in filling in the Government representatives, but it is a difficulty that may be overcome?—I think so.

7597. (*Lord Faber.*) Who do you propose would be the authority to decide the all important question, for instance, how much liquid assets the bank should hold, which goes to the root of a bank's existence? Who would decide that point, the Government or the directors?—I think the Government would have to make up its mind, before it formed the bank, on many essential points which it would include in its articles or charter or whatever it were called.

7598. As you will readily see, it would be very necessary for the directors to meet at least once a month in the case of a bank with all these ramifications, because the bank might easily get wrong or tied up as we say in banking parlance, as it might have assets which it could not realise readily, and unless that branch of the work was very carefully watched there would be trouble?—Surely it would be reasonable for the Government to say, you shall hold so much of your assets in a certain form.

7599. (*Lord Kilbracken.*) The Government of India, according to your proposal, would have the ultimate control of all the bank's operations and would therefore be responsible for them, I suppose, to the Secretary of State?—I think that the Government of India would not have the control of the bank.

7600. Do you really think that, in view of the scheme which you have sketched out? Would they not practically be responsible?—I think not. Having given them their charter, and having given them their directors, they seem to have got clear of the bank altogether.

7601. Supposing that the bank—it is not very likely perhaps—were to do something foolish, do you think that the Government of India would not be held responsible for it by the public and by people in this country?—To me it is almost inconceivable that men at the very top of their profession should be so very foolish that such a position would arise. After all, this point arises in every business and in every bank.

7602. Of course, the conditions in India are peculiar. There is a tendency to look upon Government as responsible for many things for which the Government is not held responsible in this country, and I should have thought that a State bank of this kind, controlled, as it would be, by the Government of India, would be looked upon in India as being very much under the thumb of the Government, and the Government would be most distinctly held responsible for what it does in all great matters. Do you not think that would be so?—It would be so hypothetically—that is my only difficulty. But if a crisis arose anywhere, I take it that the Government's first duty in its own interest would be to go to the assistance of the bank.

7603. I am not talking of a crisis, I am talking of the policy of working the bank which might or might not be approved by some sections of the public. Surely the Government would be held responsible? Supposing it appeared to a large section of the public that the bank was pursuing an unfortunate policy, would not the Government be held responsible for it?—Do you mean, Would the public consider that they were entitled to look to the Government to get recompensed for the loss that they might suffer?

7604. That would follow; but would not the Government be expected to hold themselves responsible in the last resort for the action of the bank?—No, I do not think so.

7605. To a certain extent, I suppose you would say that they are responsible. They cannot wash their hands of the bank, can they?—No, nor do any government of any country wash their hands of the bank. The whole country is involved in it, and therefore the Government—because the Government are the country—are involved in the success of the bank.

7606. You must draw a distinction between a State bank, which this would be in a very special sense, and such banks as, for instance, the Presidency banks which now exist. Surely the Government would be far more responsible for the doings of this new bank than it is for those of the Presidency banks?—I should guess that in giving a charter to the State bank the Government would secure itself on the important points in which the bank might or possibly could go wrong.

7607. You think it is possible it might do that?—To a great extent I do.

7608. (*Chairman.*) Let me put a case to you: You suggest that all the Government balances should be transferred to this bank, and you suggest that it should be within the discretion of the bank to keep those balances where they think desirable, either in London or in India. There has been a great deal of criticism of the Government of India—we do not want now to go into the question of whether it is well or ill-founded—for withdrawing balances from India and lending them out in London. Suppose such a bank pursued exactly the same policy, would the Government of India escape criticism under your scheme, or would they be expected to intervene to control the bank?—I entirely approve of lending money which is in London.

7609. I am talking of the people who do not approve; against whom would their criticism be directed? I am not asking whether the policy is right or wrong, but you know there has been a great deal of criticism of it?—Yes, there has.

7610. Suppose the bank, having the management of the balances, instead of lending the money in India find it more desirable to lend it in London, and bring it over here and lend it here, we might expect the same criticism from the same quarters—you think ill-informed criticism—but we might expect the same criticism?—Yes.

7611. Would the bank act as a lightning conductor which would carry away all that criticism from the Government, or would people look past the bank to the Government and say to the Government, why do you allow the bank to do this?—The bank would be entirely responsible.

7612. (*Lord Kilbracken.*) And would be held entirely responsible by the people in India?—Yes, I think so.

7613. (*Chairman.*) And the public would be satisfied that in such a case they had no recourse to the Government of India, and that the Government of India was not open to any criticism?—I can only speak as one of the public.

7614. That is your opinion?—That is my opinion.

The witness withdrew.

At the India Office, Whitehall, S.W.

EIGHTEENTH DAY.

Thursday, July 31, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. F. C. LE MARCHANT called and examined.

7615. (*Chairman.*) Will you be kind enough to tell the Commission briefly what your experience has been in connection with Indian finance?—I was a member of the Council from February 1896 till my 10 years' term had expired in 1906. I succeeded to the Chairmanship of the Finance Committee when Mr. Hardy retired, and in my actual appointment I succeeded Mr. Bertram Currie.

7616. You were also, I think, a member of the Fowler Committee?—Yes.

7617. May I ask you one or two questions in regard to the Report of that Committee? The Committee in its Report recommended* that a special reserve should be formed out of the profits on the coinage of rupees and kept in gold. Some question has arisen in the evidence we have had as to what you meant by "gold" in that connection; did you understand it as actual gold or as covering gold securities?—I think the predominant idea was actual gold, but the working out of the idea may not have been fully elaborated in the minds of the Committee, so that individually I should rather substitute "sterling" for "gold." Still, I think, especially in the earlier days of the development of the policy, that gold was predominant.

7618. Have you followed the policy of the Indian Government since?—In a general way I have; but I cannot say that I have official information on most of the subjects.

7619. You will very likely be aware that of actual gold in the Gold Standard Reserve there is comparatively little—rather under 2 millions—and that the major portion of the reserve has been invested in securities?—That is so.

7620. Do you think, in the light of the experience which has been obtained, that such a proportion of actual gold is sufficient?—I should doubt its being sufficient if the Gold Standard Reserve fund was taken by itself and separated from the Paper Currency Reserve. In the first instance, after the Fowler Committee Report there was no separation, and the Paper Currency Reserve was the whole fund. It was on its separation, if my memory is correct, that a recommendation came from the Government of India to invest primarily in Consols; and, following to some extent the precedent of the Paper Currency Reserve, and still more, having regard to the fact that the requirements of the gold fund would be mainly in London, I think that was not departing from the essential principle of the recommendation of the Committee. But, as I was saying before, if there were no gold in the Paper Currency Reserve, and no gold on that account in London, or easily available in London, it would be questionable whether so large a proportion of the Gold Standard Reserve fund should be in securities.

7621. In the light of recent events would you think it wise to invest any portion of the reserve in first-class securities such as Consols, but with no date of redemption fixed?—There is a great difference of feeling among many leading authorities in the City on that subject. Just at this moment there is a revulsion of feeling in favour of longer-dated securities, and I should think from my own point of view that they are right. The first question was, what was the security that was most easily saleable and most available at the Bank of England? One should bear in mind throughout that the relations of the Secretary of State to the Bank of England affect the choice of securities. At the time Consols were purchased they commanded a wide market, more than any other gilt edged security. But I would question how far investments ought to be made in Consols now. Looking at the proportion already in Consols, I think that it is wiser to buy stocks with maturities, and especially Treasury bills and other stocks that run off of themselves.

7622. As I understand you, the amount of gold which you would think it necessary to keep in the Gold Standard Reserve would be very much affected by the amount of gold you have in the currency reserve?—Yes, and by the views of the Secretary of State and the Government of India about the location of that gold.

7623. Was not the primary object of the Gold Standard Reserve to maintain the rate of exchange?—Certainly.

7624. And of the Currency Reserve to maintain and provide for the encashability of the notes?—That is so.

7625. To a certain extent, if I understand you aright, you are treating the currency reserve as a security for the maintenance of exchange?—Yes, to a certain extent, in fact to a material extent, I think I would say.

7626. Have you ever thought whether, if their objects are to be to that extent mingled, it might be desirable or possible to amalgamate the two reserves?—I think that as greater experience is gained—but experience is a matter of rather slow growth in currency questions—there might be some advantages, but at the moment the difficulty that would occur to me is that it is necessary that the Paper Currency Reserve should be under statute and fixed by statute. There is a certain amount of elasticity in the Gold Standard Reserve and the use of it; and though, in practice and by agreement between the Secretary of State and the Government of India, the applications of it are well defined, I think there have been instances in which the silver portion of the Indian branch has been used in a way that it might have been rather difficult to define by statute. Suppose, for instance, it is desired to give very considerable freedom and discretion, that conflicts with the idea of a statute which implies precise limitation. So far as I can follow it at present, the views of the Secretary of State and the Government of India are so much in harmony, and they appear to agree so largely in

* C. 9390. page 18, paragraph 60.

principle and on the amount of the funds and the distribution of the funds, that I think it almost has the effect of a statute so far as concerns the Gold Standard Reserve for practical purposes.

7627. May I take it from what you have just said that you still think it would not be wise to bring the Gold Standard Reserve under statutory regulation?—I should rather hesitate to do it yet.

7628. Until a wider experience has been gained?—Yes.

7629. We have heard a good deal of criticism of this, which I have called, for want of a better term, in-and-out working of the two reserves. It has been put to us by some witnesses that it appears very anomalous that there should be silver in a reserve which is intended to preserve exchange, whilst, on the other hand, there should be gold in a reserve which is created in order to provide for the encashment of notes in rupees. What is your opinion about that?—It is anomalous, but each branch has grown up from the necessities of the case, viz., on the one hand to keep in London, and available there, as much gold as can be spared to maintain exchange, and on the other hand to have in India a supplement of silver which can be dealt with more freely than if it were under the Indian Paper Currency Act. When Council bills are paid by silver withdrawn from the Indian branch of the Gold Standard Reserve it is now the practice of the Secretary of State to add temporarily a corresponding amount in sterling to the London branch of the same reserve, by means of a deposit at the Bank of England, or in some other sterling form, and not immediately to earmark gold. If this silver were to be transferred to the Paper Currency Reserve it would seem necessary to amend the Act to secure continuance of the same powers.

7630. I think it is clear from the Report of the Fowler Committee that they intended that this Gold Standard Reserve should be kept in India?—I have not any clear recollection as to how far that was defined, but I think in the first instance that was the idea, that gold should be shipped to England if exchange fell. On the other hand, the moment the Secretary of State began investing it in Consols and sterling securities, that was a step in the direction of keeping it here.

7631. Even if kept in India, I understand that the Fowler Committee's idea of the use that would be made of it was that in a crisis it would be made available in India for shipment to London?—It was.

7632. If, then, when the crisis comes for which it is provided, it is needed in London, do you see any objection to the policy which the Secretary of State has actually pursued of keeping it in London?—It appears to me absolutely necessary to keep it in London, and I think the state of affairs that occurred in the years 1907–8 and 1908–9 emphasises that.

7633. Would you develop that?—The Fowler Committee recommended that the gold reserve should be made freely available for foreign remittance when exchange fell below specie point, the method to be according to circumstances. As one method they suggested remitting gold to England with a corresponding reduction in Council bills. Another course which was not specified, but would, I think, have been consistent with the principle of the recommendation, would have been to pay gold to the banks which needed remittances, to be applied to reduce indebtedness abroad. In the crisis year 1907–8 the reduction of Council bills, which had proved a potent instrument for maintaining exchange in previous years, was not sufficient; the balance of trade was exceptionally adverse, imports not having diminished in at all the same proportion as exports, and the Government, after apparently some hesitation, met the emergency by reversing the usual procedure, and offered in India sterling drafts on London. To meet those drafts the presence of the gold or sterling securities in London was a paramount necessity.

7634. When they made gold available in India in 1907 and 1908, did you think the result was satisfactory from the point of view of the support of exchange?—No. It is impossible to speak positively on this subject, especially if one has no official contact with it I cannot say whether it would have been possible to pay out the gold to remitting banks, to whom the sterling drafts were delivered. There are always great difficulties in discriminating. My answer to your question would be that it was not satisfactory in its results.

7635. As a matter of fact, in the way in which it was done, the major portion of the gold did not go to the support of exchange?—So far as I have been able to follow.

7636. Accordingly, in the light of experience, you have come to the conclusion that the Gold Standard Reserve ought to be retained in London?—Yes.

7637. Would you keep a portion of it in gold, which would vary according to the amount of gold that there might be in the Currency Reserve?—I think it might be convenient to have some minimum limit, such as 5 millions, or, if gold in the Paper Currency Reserve was not available in London, I think then it would be necessary to have 10 millions.

7638. It has been put to us by some witnesses that, after all, we have to revise our ideas rather as to the saleability of securities in view of the recent course of events in London and elsewhere, and that whatever may have been thought 10 or 15 years ago, you want a strong defence in actual gold now to give you time to realise whatever securities you have?—That is so. The demands on the Government in London are spread over a certain number of months; for instance, when the bills I am speaking of, some 8 millions, were sold they did not all fall due at the same moment, and so also with the expenditure in London. There is, therefore, a certain latitude of time in dealing with the securities; and looking at the large amount of bills that are held, they would either run off or would be exceedingly convenient to borrow on for a short period; so that, looking at the list of securities so far as I have been able to examine it at present, I should feel that on the whole a large part was liquid.

7639. I think the Fowler Committee also contemplated the early establishment of a gold currency?—Yes.

7640. Do you consider that that recommendation has been fulfilled by the steps which have been taken?—A very large amount of gold has gone into India. I state that point first, because one of the objections to the gold standard as a whole that was urged by authorities of considerable importance was, that it would be impossible to get gold into India. Various expedients were suggested, and so first-rate an authority as Lord Swaythling (as he subsequently became), suggested ways, such, for instance, as making duties payable in India in gold, and other expedients of that kind, which I have no doubt were perfectly sound in themselves, but proved to be not required. I merely refer to that as showing the ideas that were in the minds of experts as to the difficulty of getting gold at all. That difficulty, one may say, has surmounted itself.

7641. And, as I understand, it has so much surmounted itself that critics are beginning to suggest that too much gold goes to India?—It is so. It is the occasion for many of the criticisms on the policy of the Government. The objection which has most force is that the gold passes away from currency uses and is hoarded. Hoarding is an elastic phrase. It has been said by an Indian authority that in India every man is his own banker. Under these conditions much of the gold is not immediately effective as currency, though potentially it may come into use. In 1898 much was said of the possible use of silver ornaments as a domestic reserve. In some respects the same may now be said of gold, whether in ornaments or bullion, and still more of sovereigns. But I am not aware how far gold in any form came out of hoards in 1908. Sovereigns would have been merged in the circulation.

7642. In talking about the possibility of its coming forward again as currency you alluded to the contingency of famine; I gather you are a little doubtful how far it would come forward then?—It is a matter of degree and of place. Those parts of India where

sovereigns are not hoarded would not have them to produce, and I gather from the currency reports on India that there is a very wide difference in the practice in the different parts, so that it would rather depend on the locality of the famine. Still I am not impressed with it as a matter of great importance.

7643. What I rather wanted to put to you was whether you thought there were any other circumstances, except the pressure of famine, which would be likely to bring this gold out. Suppose, for instance, you have an exchange crisis apart from the pressure of famine, would the man who hoarded gold be likely to produce then, in order to turn into food, whatever gold or ornaments he has?—No. I think the probability is, looking at the characteristics of races, that he would rather keep it.

7644. That being so, the development of events having been what you have described, do you hold now that it should be the business of the Indian Government to press a gold currency?—No, I certainly would not press it, least of all in those parts of India where the community appear to dispense with it conveniently. I think it has always been stated that in Bengal, for instance, in the jute country and in the rice country, the demand for gold is of an exceedingly slender character, and, so far as there is a demand, it is for ornaments. On the other hand, if you take the Punjab and Northern India, and, above all, Bombay, it appears to me that the statistics point to there being a very active demand. The reports give abundant evidence that in the parts just mentioned the sovereign is in increasing use as currency in an effective manner, and used by all classes in daily transactions.

7645. We have had evidence as to those very marked local distinctions in the use of gold. Do I interpret your view rightly if I say that you would recommend the Government of India to provide the people of India with what they ask for?—Yes, with one qualification. Where it is evident that the demand for sovereigns is only in place of bullion I should be in favour of restriction in the issues, especially when there are indications of impending famine or crisis. This is a matter of administration; restriction has already been exercised when the supply has run short; the Government is under no legal obligation to give gold. In France there is economy in the issue of gold, at least to the general public. I should be in favour of meeting the demand for sovereigns in the places where they form part of active circulation, but restricting issues where that is not the case. Every year adds to experience as to the local uses of sovereigns—at times there has been a falling off in the receipts of sovereigns from the public by railways and post offices: latterly again a marked increase. Progressive experience is the best guide to action in regard to the distribution of gold.

7646. I think you told me that in your opinion gold in circulation, at any rate, until it reaches very large figures, is not of great efficacy for the support of exchange in a crisis?—That is so. I think it is a matter of degree. One often uses the word "circulation" in a way which it might be difficult to define. If one fixed the reserves of Government at any one given moment as fully adequate to maintain exchange, I am inclined to think that for any additional currency that has to be coined after that date, gold is as effective as rupees supported by a proportion of gold. I am not prepared to say that there is a marked difference.

7647. In the meantime, as long as you are coining rupees, you are adding to the Gold Standard Reserve, are you not?—You are.

7648. Provided that you do not exceed the real demand for currency in India, do you see any cause for alarm in the growth of the rupee circulation?—It is a difficult thing to forecast how the position would appear if one imagined it increased over a succession of years. Speaking at this moment I should feel no alarm, because the Gold Standard Reserve would increase, and a considerable proportion of the rupees that were coined would go out of circulation; so that from that point of view I think the risks from additional coinage are exceedingly slight. It was just possible that a different set of circumstances might have occurred, and at one time it looked as if they would occur; it looked as if silver might rise to a point intermediate between, say, 27*d.* or 28*d.* and the 42*d.*, which would approximately be the equivalent of the 1*s.* 4*d.* In that case there might have been a much lesser proportion of gold accumulated in proportion to the coinage. I do not know that that would have been a very serious risk, but still it affects calculations if the accumulation in reserve is, say, half what it is at present. For the time being, owing largely to the action of other countries in demonetising silver, that risk seems to have passed away.

7649. There is no way in which the Gold Standard Reserve is increased at present, I think, except by the coinage of new rupees and the interest on the sum already in reserve?—That is so.

7650. Suppose that when there is a demand for fresh currency you issue gold instead of rupees, your Gold Standard Reserve ceases to grow?—Except, if gold is being shipped out and being handed in to the treasuries or rather into the Paper Currency Reserve. Then you get gold; but otherwise you are not increasing reserves.

7651. Unless, therefore, the gold comes out of circulation and back into the currency reserve, the Gold Standard Reserve in the hands of the Government in support of exchange ceases to grow?—I should have thought that if there were large importations of sovereigns by the public, and those were handed to the Government for existing rupees or for notes, that at all events the Paper Currency Reserve gold would grow, and that that to some extent would fulfil the same purpose.

7652. May I take it that in either case you would hold that gold in one of the reserves is far more valuable for the support of exchange than gold in circulation?—It certainly is with the present uses of gold in India. How far if those change, if, for instance, the effective use of a gold currency developes in a considerable part of India, that might be to some extent modified, I am not prepared to say; but under present circumstances, it is as you say.

7653. May I ask your opinion about England, by way of getting more exactly your mind on this subject? We have a very large amount of gold in currency; do you think that gold is largely available for the support of exchange in a crisis, or does it represent in the main a certain amount of coin which we find it convenient to have in our pockets, and which we carry regardless of the condition of the money market?—I think if you distinguish between the gold in the pockets of the public and the gold in the banks, it is so. No doubt there is a considerable amount of gold in the reserves of the various banks in England, and presumably that would be efficacious.

7654. I think that does explain to me what you were saying. As long as the gold goes into what we call hoards in India, or into gold ornaments and so forth, it is not of great value to exchange?—It is of none whatever.

7655. If it is accumulated in the reserves of the banks, or in the Indian treasuries, then you would consider it of great value to exchange?—No doubt.

7656. You have observed that the circulation of notes has increased very largely in India?—I think it has doubled in about 11 years.

7657. You said just now that you would be inclined, if you were the Government of India, to give the public what they wanted; would you have any preference that they should take one form of currency rather than another?—I think notes would certainly be preferable. Of course, the habits of the people plainly bear on it. but as to which is preferable I should say that notes are unquestionably preferable.

7658. If the Government of India could exercise any influence to increase the circulation of notes rather than gold or rupees, would you favour that course?—Decidedly.

7659. Now may I ask you a question or two about the opening of a mint in India for gold coinage; I

think the Committee of 1898 recommended that?—They did.

7660. Can you tell me at all what importance they attached to it, and why they attached importance to it?—I think partly it was connected with the production of gold in India itself, which was taken at about two millions a year. There was no doubt that if that had been minted and remained as coinage in the country, after a certain succession of years it would have become an appreciable item. I think also there was the idea that it fell in with the sentiments of the country.

7661. Was the recommendation connected with the idea which, as you say, had been presented to you by witnesses of great experience, that you could not get gold into India?—Yes, to some extent.

7662. Did you consider it an important recommendation?—No. I think if it had been, the Government would have followed it up with greater force. One consideration that told against it was that the prospect of securing the gold produced in India was doubtful. There were some incidental circumstances that told against the Government securing it, and it was quite plain, I think, that if the gold was not obtained, the *raison d'être* for it mainly disappeared.

7663. Could you tell me whether those circumstances have changed since that time?—I should doubt whether they have. Of course there was always a possibility that some of the gold imported in bars might have gone to the mint, but that was not such a likely circumstance.

7664. There was no advantage to the importer, was there, in taking bars to the mint there, rather than in bringing gold to the mint here?—The bars presumably are largely imported for ornaments. I have at times heard that formerly the bars were imported when there was any degree of unsettlement in India. This I did not hear officially, but a friend who was in the Indian trade told me that he had extensive orders for bars if there was any political disquiet, on the ground, I suppose, that in that form it was easier to convey away or to conceal. Of course it might always have turned out that some of that gold would have come to be minted subsequently, but still that would not be a very important element.

7665. On the whole, the people who took bars under those circumstances did not take them for the purpose of tendering them for coinage, but for the purpose of putting them in a safe place until the disturbance passed away?—Yes, and probably retaining them altogether.

7666. The Fowler Committee had to deal with a great many subjects on which they had perhaps not very much experience to guide them; now that we have seen their recommendations at work or a portion of them, do you attach importance to the opening of a gold mint in India?—No, I do not. I am aware the opinion is held by people of great Indian experience that minting a purely Indian gold coin would be an advantage; but if the coining of Mohurs is excluded and there are decided objections to that course, I do not see the advantage of a mint for gold. The Mohur might conflict with the sovereign, which is the coin of the Empire.

7667. I am not quite certain how far you are prepared to express opinions on some of the subjects which have been remitted to us; but at any rate I should like to ask you whether you have formed any strong opinion as to the desirability or otherwise of the establishment of a State bank in India?—As a general proposition a well-constituted and managed bank is an advantage to the community, but in the particular case in question, that of a State bank, the circumstances differ widely from those of a bank on a commercial basis, and the forms which the constitution of such a bank might assume vary from types of strictly limited sphere to others designed to take a large share of the business of India abroad as well as at home. Among projects mentioned in 1899 was one by a very eminent authority, that of a bank with a capital of 14,000,000*l.*; not necessarily to compete with the Presidency banks, who were to be invited to form the nucleus of it. This bank was to confine itself to internal business, and act in many respects like the Presidency banks, but with larger Government funds and wider powers. It was designed, no doubt, to deal with one of the main questions of Indian banking, the demand for advances during the movement of crops. It is, however, a question whether such an institution would be remunerative, and whether the provision for seasonal demands could not be met by the Government through the Presidency banks as they now are. So far as I can draw an inference from English experience, the expense of extending numerous branches, with their management and staff, especially in India where distances are large, would be very considerable.

7668. You have spoken of the advantages, or the possible advantages, of such a bank to trade, and you have given us your opinion on that. One of the reasons that has been put and has been pressed most strongly on us by witnesses, I think, is the desirability of relieving Government of part of the intricate financial business which it now has to perform. The Government of India and the Secretary of State between them, do a great deal of what we ordinarily term banking and exchange business. Supposing that anybody saw their way to recommending the creation of such a bank and to framing a scheme for one, do you think that such a bank could relieve the Secretary of State and the Government of India of the responsibility which they now bear?—I should doubt its being able to relieve them entirely. I should have thought that at all events the Government of India and, to a certain extent, the Secretary of State, were so immediately concerned in the note issue, the security of Government balances, and the measures to meet emergencies as in 1908, that a bank could not take the burden entirely off their shoulders. I should have thought too there was some risk that the bank might become simply another Government institution—that the attempt to exercise control by a single representative, or perhaps by two representatives, might not work in a completely satisfactory way, and that there would be a risk that it would really become another Government department over again.

7669. You spoke just now of the difficulties of trade in the busy season and of the rates of interest then; I think you said that you thought Government and the banks ought to be able, under present circumstances, without the creation of a new institution, to do as much as could reasonably be done?—I do think so.

7670. Do you think Government might do a little more that it does now in the busy season to help trade?—I think it would be quite possible to make advances for, we will say, from two to three months at a time, from November to the end of March.

7671. To whom would you make those advances?—Exclusively to the Presidency banks.

7672. Would you require security from them?—I should assume that the money would be used to facilitate trade, especially the export trade, during the period before merchants are able to what is called make bills. When an exporter is in a position to draw a bill on London, he is in a position to sell it, we will say to an exchange bank, so that it is difficult to say that at that moment there ought to be any severe pressure on India; but there must be a considerable interval before the delivery of produce when the expenses of collection and other expenses up-country have to be met, and at that season he is not in a position at all times to offer an immediately negotiable instrument. I should assume that the Presidency banks with their knowledge of local circumstances would be in a very good position for making advances at that period, and that in that case they could take the bills of these merchants; and then I should assume that those bills with their endorsement would be a reasonable security.

7673. Have you formed any idea in your own mind of the sort of sum that it would be desirable for the Government to lend to the banks under those circumstances?—I think there are two questions—what amount would be likely to be effective, and also what amount the Government could reasonably spare? Of course there is always a risk when advances of that kind are made, that in succeeding years trade counts

upon them, and that what might be sufficient in the first instance may not be sufficient in a subsequent year. Putting that aside, I should have thought that, say, something like three crores or presumably in some years four crores—of course, it would vary with the years, the produce, and the circumstances—some amount of that description would be sufficient. I indicate it rather generally, because the Government of India would have the opportunity of collecting the views of the exchange banks and chambers of commerce, and would be in a better position for naming amounts. But I assume some such amount as that in my argument. I should have thought that an amount of that kind might come out of that part of the currency reserve which at present may be called fiduciary, and that some of the securities there might, if need be, be diminished. The money would earn interest to some extent as those securities earn interest, and I think it would be more usefully employed.

7674. Have you considered whether it would now be safe to increase the fiduciary portion of the currency reserve? At present, I think I am right in saying, it is fixed at a particular sum by statute irrespective of the amount of notes in circulation?—I believe it to be so. I think the amount is 14 crores.

7675. Have you ever thought whether it would be safe to take not a fixed sum, but a proportion of the whole?—I should have thought it would be an improvement to take a proportion.

7676. That would give some elasticity to the currency system which it now lacks?—Yes. I think a proportion of the minimum circulation would be a safe practical basis.

7677. Do I understand you to say, take a series of years and average the minimum circulation over five or six years, say, and then fix your proportion on that minimum circulation?—I think that calculation would be a guide; but the increase of circulation has been so rapid in the last two or three years that, though that would give a principle, I think one would have to look to the circumstances of the last year or two particularly to see if they affected the result. I speak with hesitation, because it is a special subject, which the controllers of the currency would know better than I do, but I should have thought 25 per cent., or something of that kind, would do.

7678. In principle, at any rate, you would take no objection to that?—No.

7679. I go now to quite a different subject. We have been asked, amongst other things, to report on the financial organisation of the India Office; could you suggest any alterations for us from your experience?—Is that, if I may say so, rather bearing on the Departments or on the Council? The members of the Council, of course, are rather a separate matter from the staff organisation.

7680. I think our reference included both?—I could imagine that there might be use in individual members of the Council, each of them, having some individual province. I think possibly rather——

7681. Forgive me interrupting you, but perhaps my last answer might mislead you. You asked me if we had to deal with members of the Council; we are concerned only with them as they touch the financial organisation?—Of course, the practice differs at different times. Sometimes there have been members of Council with immediate Indian experience; then again there have been intervals without.

7682. When you were on the Finance Committee and chairman of that body, did you feel that you had in the ordinary course of the organisation as much Indian experience as you needed accessible to you?—Of course, the questions came forward from the Government of India in a very complete form, and there always must be serious responsibility in departing materially from their views on any purely Indian subject. An important side of the finance work was in relation to the home money market, the sale of Council bills, questions of issues, and of dealing with funds generally, and all this was apart from the consideration of purely Indian questions.

7683. Then your experience would rather lead you to say that what is required in the Finance Committee here is what I may call London experience, the Indian experience being supplied by the Government of India?—I should say London experience is required for home affairs, but Indian for Indian affairs.

7684. I put the question to you, because one has become aware that a good deal of the criticism directed against the present organisation has its root in an impression, well or ill-founded, that London is over-represented in the Council of the Secretary of State, and that Indian interests are sacrificed to London interests?—I should demur to that, so far as my experience went.*

7685. (*Lord Kilbracken.*) I think when you were on the Finance Committee, you had always on your side a member of Council who had had first-hand experience of Indian finance and commerce and had spent many years in India?—Yes; that was rather as apart from purely official experience.

7686. I meant to exclude official experience; I was trying to describe a man who had had long experience of trade and financial operations in India itself. You always had a man of that kind as a member of your committee when you were chairman?—That was so, and that was exceedingly useful. I was at the moment thinking of political experience and official experience rather than of business experience.

7687. (*Chairman.*) From your experience would you say there was no ground for suggesting that owing to the character of the organisation, or for any other reason, the interests of the London money market were allowed to outweigh the interests of India?—That is so. I would say the principal way in which the interests of the London money market came in was as bearing on the question of issues—on raising money—which after all was one of the material and most important functions of the committee.

7688. In fact, it really came to this—could you or could you not, or under what conditions could you, raise the money that India required?—Yes.

7689. (*Mr. Keynes.*) I believe you have had business relations with Russia?—I have some business connection with Russia.

7690. Have you any knowledge of the working of exchange in that country?—The State bank provides exchange on certain occasions.

7691. How close an analogy is there with India in the matter of keeping reserves abroad and so forth?—I should think the main distinction is that London is so eminently the capitalist partner of India, much more so than it is of Russia, that the circumstances are not similar Of course, Russia has to remit for its coupons mainly to Paris and in a lesser degree to London, but it is not dependent on London for its finance in the same degree that India is.

7692. I did not mean so much its relation to London as its relation to foreign countries as a whole; do you think that the system works out in detail very much like the Indian system or not?—I think that most Russian banks have credits with the leading houses in London and Paris, and the State bank is in a position to draw when exchange is required. I do not know the facts as to what reserves it may have.

7693. Are they credits in the sense that the Government has a right to overdraw, or are they sums left with these houses? Do you mean by a credit that the Government can borrow from these houses, or that it can use funds which it has temporarily placed with them?—I am not able to answer the question. I have no doubt at times it has very large balances with these firms in London and Paris; but, if those balances were to diminish, I should assume it could draw by arrangement; but this is a matter of special knowledge, which I do not possess.

7694. It is rather an important point in connection with the Indian problem, because the Government of India have either kept liquid funds, or else they assume they have to sell out their securities?—Yes, that is so.

* Note by Mr. le Marchant: The ex-financial member of the Council of the Governor-General of India was a member of the Council of the Secretary of State, and of the Finance Committee, from 1899 to 1903, and was succeeded there by the ex-Secretary to the Financial Department of the Indian Government.

7695. With regard to the establishment of a State bank, you say there are a number of practical difficulties in setting it up. Some witnesses have spoken of the practical difficulties rather, if I may say so, in the abstract, and I think it is important to bring them to a head and to know exactly what they are. Even at the expense of some recapitulation of what you said in answer to the Chairman, would you enumerate what appear to you the most significant of them?—I think the first difficulty is the risk of interfering with existing institutions, which conduct the trade of India with very great success. It is difficult for a State bank, if it has sufficient funds provided by Government, to limit its transactions. Of course, there are different ideas of a State bank; some are that it should practically confine itself to internal business in India, but on the other hand there is an idea that it should do a business on this side and control exchange.

7696. Are the other institutions you are thinking of exchange banks?—Mainly.

7697. You are not thinking of a case in which the State bank is additional to the Presidency banks?—I think it would be very difficult for it to be additional if it did precisely the same work. I believe that the exchange banks give liberal advances in India to their clients; how far the Government would be prepared to do the same business, I do not know. Then again it would be an important question on this side, what sort of representation the bank had; for instance, in the case of the State banks abroad, their representatives in London are the leading financial houses. It would make a great difference whether the State bank in India had as its representative one or two of the leading houses in London, or whether it had an office and a staff and business in London.

7698. Which would be the right way of doing it, in your opinion?—If you have an eminent London house as a correspondent, you have the advantage of their knowledge and their experience. It is difficult to compare different advantages together.

7699. If the State bank took over in London some of the work now done by the Secretary of State, that would really mean having an office, would it not?—Certainly; but if it did nothing more than that, I do not think there would be any advantage in conducting that which is not already enjoyed by the India Office. I should have assumed that in most of the original ideas of a State bank there was to be a large capital and business on this side, which would put the bank in more direct communication with the banking community and trade of London.

7700. These are your first two difficulties—the possible interference with the exchange banks, and the difficulty of finding the right way of representing the bank in London; what further points are there?—I attach a great deal of importance to the cost of having a sufficient number of branches in India to develop any business beyond the business now conducted by the Presidency banks.

7701. It has come out to us in evidence that the number of Government treasuries is much greater than the number of Presidency bank branches—I mean five or six times as great, perhaps?—It is some 270 odd against 35, I think.

7702. Would there be great expense, do you think, if the branches transacted the business now done at the Government treasuries in so far as related to holding the balances and the management of the paper currency?—Do you mean if the bank took over all the treasuries?

7703. Yes?—I have the impression that the officers in the treasuries are officers of Government, with pay and retirement, and whatever promotion Government may offer. If they become entirely officials of the bank it would be a very material change in their status, and an expensive one to the bank, I should think. I do not know whether it would be contemplated that the officers should remain officials of the Government and yet do the work of the bank.

7704. I am not trying to get solutions of the difficulties from you, for that would not be reasonable; what I am trying to discover are your *primâ facie* objections. That, I understand, is the third one—the possible expense of setting up the numerous branches such as are contemplated. Is there any further difficulty?—I think all the incidents attaching to banking on a large scale have to be taken into account. There is, for instance, the question of advances; if they are conducted on a very strict scale I do not know that the bank would enter sufficiently into the commerce of the country to be of much use; if, on the other hand, they are on a very free scale, then there are all the attendant risks to the Government of being identified with business.

7705. I suppose you would agree that the Presidency banks at present are on a very strict scale?—I believe them to be so.

7706. Is there any further point that occurs to you at the moment on that head?—No.

7707. (*Chairman.*) I think, in answering questions of mine, you did say that you thought there was a danger of the bank becoming merely another Government department?—I think, in view of the responsibility of the Government for its actions and the probable presence of representatives on it, that, looking at the extent to which the railways have become Government property, there would always be some possibility of the bank becoming a Government branch.

7708. Did I rightly understand you to express the view that, even if it did not go so far as that, the responsibility of the Government would be still so much involved that they really would get no relief or little relief?—I think they might get some relief in the ordinary transaction of business, but still no doubt much attention would be required. It would mean Government officers and Government work.

7709. In the last resort, if anything went wrong with the bank, how would its failure be regarded? Who would be blamed?—I think it is customary to blame the Government whenever a case can be made out, and they would have to accept the blame, probably.

7710. You do not think it would be possible for them to wash their hands of the responsibility?—No, I do not.

7711. (*Lord Kilbracken.*) That responsibility would come ultimately on the Secretary of State in Council, would it not?—Yes, I think it would.

7712. And he would have to be responsible to Parliament for any part of the operations of the bank of which individual Members of Parliament might disapprove?—I expect so.

7713. (*Mr. Keynes.*) I do not propose to take you in any detail over this question of the State bank so far as its positive advantages go; but suppose there were strong positive advantages, do you think the kind of objections which you have been outlining are insuperable ones? Is not your point of view rather, here are these difficulties, and I see no great positive advantage in the thing, and therefore there is not much to be said for it?—It is very difficult to contemplate the exact working of an institution which is in the air. It is difficult to give a conclusive opinion on what one might call a project.

7714. Do you regard the sort of difficulties that you have been mentioning as of a very far-reaching kind?—I think, taken in the aggregate, they are.

7715. (*Sir Robert Chalmers.*) Still on the subject of the State bank, is there any local demand for a State bank in India that you are aware of?—No, I do not know that it would necessarily have come before me, but if I might transfer the question as to whether there is a local demand in London, I should have thought that the purchasers of Council bills prefer dealing with the Government through the Bank of England rather than through any other agency.

7716. As to the sale of Council bills, what would be your feeling, in the light of your experience and subsequent consideration of the matter? Would you sell Council bills when you want to, and have the funds in India, within specie points at whatever was the rate current?—Yes; with the view of fulfilling the object of selling Council bills to meet the expenditure against revenue in London.

7717. Would you sell sometimes below 1*s.* 4*d.* and sometimes above 1*s.* 4*d.*, according to the market conditions of supply and demand?—Yes; of course,

with the reserve of very much diminishing the sales in the slack season and not going beyond the trade demand.

7718. It has been put to the Commission by witnesses that the Government of India should undertake a definite obligation to support exchange by selling bills in India on London at 1s. $3\frac{29}{32}d.$ whenever anybody came forward and applied to buy bills at that price; what would be your opinion of such an idea?—I should have thought it was better to undertake no obligation, but to carry out any transactions of that kind which the Government found desirable.

7719. Does it come to this, that you in practice, as regards India, think as people do dealing with Russia and dealing with France, we will say; that is, that one should follow the market and not have any specific obligation at a specific price?—Yes.

7720. Take the alternative: Suppose that there were such an obligation, do you think that the Secretary of State could hold out successfully for 1s. 4*d.* at all times when selling Council bills in London?—He could be undersold by gold under certain circumstances, when, say, the Australian exchange or the Egyptian exchange was promoting the shipment of sovereigns to India.

7721. If that event happened, would it tend to this position of affairs, that he would not have sold his Council bills?—That is so.

7722. But he would have gold which he would have to ship?—That is so.

7723. Which would be an expensive operation on balance?—It would cost him about ½ per cent. to ship it back.

7724. You would follow the market rates?—Yes.

7725. Do you think what has been called the initial hesitation of the Government of India in bringing forward its reserves to support exchange in 1907–8 had a certain moral effect of an unsatisfactory character? Do you think that people in India would have been happier if they had used their reserves immediately?—On the spot?

7726. Yes?—If the sterling drafts had been offered earlier that would no doubt have created a better feeling.

7727. (*Sir Shapurji Broacha.*) It is your recollection, as I understand, that the Fowler Committee intended that the Gold Standard Reserve should, at any rate as regards the major part of it, be in gold?—Yes.

7728. Have you any recollection of any discussion on the subject of the division?—No, I have not any recollection of it being discussed in the Committee.

7729. I suppose, in the first instance, the Government of India recommended putting a portion of the reserve into securities?—So far as I recollect that was so.

7730. Do you know that they repented afterwards, in 1909, and said that a substantial part of the whole amount, or the major portion of it, should be in liquid gold*?—I think I have seen a letter which seemed to convey a different view from the view originally expressed.

7731. You are now of opinion that some of it may be safely kept in securities?—Yes.

7732. Did I understand you to say that would be five millions or 10 millions?—I suggested five millions or 10 millions for the gold as apart from the securities.

7733. Five millions or 10 millions out of 22 millions is not a preponderating part?—No, it is not.

7734. So that would be a departure from the intentions of the Fowler Committee?—To that extent.

7735. Suppose there were two crises, one in India and one in England, do you not think that the reserve being in securities would intensify the crisis and not mitigate it? Would not its being held in Treasury bills intensify and not mitigate the crisis?—I think, to some extent, any sales of securities do accentuate a crisis, whereas having gold and parting with that gold freely mitigates it; but it is a question of degree. If those securities run off, as, for instance, Treasury bills would run off of themselves, it would not be a sale, and there would be no withdrawal of gold from the Bank of England. The obligations of the Secretary of State here are met, in fact, by cheque; they are banking transactions in the payment of interest and payment of contracts, and so on. The receipt of money through the running off of Treasury bills, and through the sale of securities, would not mean the withdrawal of gold from the Bank of England.

7736. But somebody has to find it; it is no help in a crisis?—It is no help; but then whoever holds the Treasury bills would equally be paid. It is no additional demand, and it is not a demand on the gold supply of London.

7737. But it is a demand on the Government at a time when Government can ill afford it. Take a time of war, or something like that?—But the Government would have to pay, whoever the holder was.

7738. Suppose the Gold Standard Reserves were all in gold, that would relieve the Government's necessity rather than aggravate it, would it not?—I demur to saying it would be aggravated by payment of Treasury bills. I think, if it is a case of withdrawing gold from London, it would aggravate it, but I do not think the ordinary current transactions through the banks come to very much.

7739. I am talking of a crisis and of the Gold Standard Reserve giving out gold instead of cashing its securities; would that not be better for mitigating the intensity of a crisis, while the other method would to some extent, though not altogether, aggravate it? As somebody has said, there is nothing like gold?—Of course you would have to take into account the period over which the payments have to be made.

7740. I am thinking of the worst time under the worst circumstances?—It is the case that a large store of gold if disbursed in a crisis would affect markets favourably.

7741. Are you in favour of uniting the Gold Standard Reserve and the Paper Currency Reserve?—I think that might be done eventually, but it appears to me that the purposes are different, though in many ways the Paper Currency Reserve is used for Gold Standard Reserve purposes.

7742. Now you have 24 millions in the Paper Currency Reserve and $22\frac{1}{2}$ millions in the Gold Standard Reserve, and they make together about $46\frac{1}{2}$ millions. If you add $22\frac{1}{2}$ millions to the Paper Currency Reserve then the $46\frac{1}{2}$ millions would always look a large sum whenever the recommendation was made to pay out gold for rupees; but if the money were kept under two separate heads, then, if out of the 24 millions in the Paper Currency Reserve you take 10 millions against currency notes or rupees, you think you have reached the danger point and that you should take time for reflection?—I think there is some advantage in keeping the systems separate.

7743. Two and two make four, but if you keep the two separate and you only withdraw from the one, that makes you think?—There are considerations in favour of separation.

7744. Do you know how many shillings a head in silver circulate in England; have you ever calculated it?—No. Of course it is a very different thing to the use of silver in India.

7745. Do you know that seven millions of rupees coined in five years only meant $1\frac{1}{2}$ annas per head per annum? That is not an excessive coinage, is it?—No.

7746. When you know that in France there are 25 rupees a head in silver coins circulating, then the seven rupees in India do not appear to be too large. According to the calculations of Mr. Keynes and others it is less than seven rupees a head now. A coinage of six rupees a head would not be an extensive coinage as compared with 25 rupees a head in France, would it? Then in Germany their Parliament has just passed a law to increase the circulation by another nine marks a head. Therefore, I think there is yet a good deal of room for the coinage of silver in India where the transactions are all in cash?—Certainly one may expect that there will be a demand for it.

7747. You would not call six rupees a head a great redundancy?—No.

* *See* Appendix V., page 170, paragraph 7.

7748. Even what they are coining now is not a token coin, when you take the silver value that is in the rupee and bear in mind that one-third is put into the gold reserve. In France silver is 62*d.*, in England it is 61*d.* or 62*d.*, and in Germany the same. In India 28*d.* is put into the rupee, and, on the basis of 42*d.*, 14*d.* is put into the gold reserve; so it is not such a token coinage for redemption as some would take it to be?—You would not have a very ready market for your rupees. You would not be able to sell the rupees abroad with any very great facility.

7749. Nor would France her francs?—I quite agree with you. It has always been held that the French 5-franc piece is supported by the large gold reserves.

7750. So there is room for increasing the Gold Standard Reserve by coining more rupees, as there is no redundancy yet?—That is so.

7751. The policy of other countries is to conserve gold and not to dissipate it by giving it out; at what stage should we stop giving in India gold against the tender of rupees?—I do not think it is possible to lay down a principle in this connection.

7752. Do you think we might do the same as France or Germany?—In paying out the gold?

7753. Yes?—That might have the effect of causing a discount in the rupee; would not that be so, if a premium were put on the sovereign?

7754. No, I think the exchange point would be preserved. To go to another point; in the formation of the Finance Committee of the Indian Council, do you think it would be wise to put in every five years the Finance Minister who has resigned in India, because he would come fresh from his last five years' experience and so could help the Council?—I should rather doubt the wisdom of setting that up as a definite principle. He might not always agree with his successor in India.

7755. There has been an outcry that there are too many representatives of London interests and too few representatives of Indian interests on the Council—not that I say so myself. Suppose that a part of the selection were given to the Indian Government, do you think that would be a wise step to take in order to abolish the outcry?—I would rather follow out the idea, if I understand it rightly, of Lord Kilbracken, of inviting some one or more persons of Indian banking and commercial experience.

7756. Do you know the formation of the State banks of Europe, generally speaking?—Yes, generally.

7757. They have not taken much money from the Government, because if the Government have put in what comes from taxation on the one side, you will see they are indebted to the bank on the other side, and the one cancels the other?—That is so.

7758. An Indian State bank, without lending anything to the Government, would have to take charge of 50 or 60 millions of Indian money?—Yes.

7759. So it is not on the same basis as are the European banks?—No; and the needs and the requirements of the population are different, and the markets are different.

7760. What I am driving at is that these banks do not use much Government money, if they use it at all. There is Government money in the Bank of England amounting to 10 millions, and against that there is a Government debt of 11 millions; that means that the one cancels the other. So it is in France; 20 millions on one side and 20 millions on the other side, and the one cancels the other there. Therefore I think this instance is quite different. A State bank lends, but here the State can never depend much on borrowing from the State bank of India, because what the State would borrow from them would be its own money?—It would be so.

7761. So the two are quite distinct in that respect?—I agree with you.

7762. (*Mr. Gillan.*) The Chairman has put to you some questions about a gold currency in general and its effect in supporting exchange. I think we have had it in evidence, even from those who favour the gold currency, that there is not very much that Government can do immediately to encourage it, so that from that point of view the question might not seem to be a very important one; but the ideal that we are to hold in front of us no doubt would influence the policy of Government in the various instances that came before them, and it may, I presume, be necessary for the Commission to say what in their opinion that ideal ought to be. It is on that point that I wish to ask you a question or two. The point that is taken, I think, as the chief reason for favouring a gold currency, is that it reduces ultimately the liability of the Government; while, on the other hand, people think that increases in the silver coinage increase that liability, and therefore they are unfavourable to any increase in the rupee coinage. The liability they speak of is the liability to find gold for silver when required?—It comes to that.

7763. In your opinion does the demand for gold in exchange for rupees depend chiefly on the balance of trade, or has it some relation to the amount of coin in circulation?—I think the demand for exchange on London, which was one form of giving gold for rupees when in 1908 there were some eight million sterling bills, had relation to the amount of money owed by importers or firms in India who had to pay debts in London and required remittance on London—of course they were able to pay for it, one may say, in rupees or notes. I think the form in which the payment was made would have some relation to the money in circulation, notes, rupees, or sovereigns.

7764. I will try to put it on the basis of some definite figures. Assume that the rupee circulation at present, we will say for the sake of argument, is 150 crores and the gold circulation is 25 crores. You have two alternatives The rupee circulation may go on increasing in the first place; suppose in the course of the next 10 years it increases to 200 crores, and the gold circulation increases to 50 crores. That is the first alternative. The other alternative is that in some way or another the rupee circulation does not further expand, and you get at the end of 10 years the 150 crores of silver that you have at present, and, we will say, 100 crores in gold. At the end of the 10 years you get a crisis and there is an adverse balance of trade, we will say, of 50 crores. As I understand the point, there are those people who say that the liability of Government at that time will be the 50 crores of this adverse balance of trade, and that, as long as there are sufficient rupees in circulation to pay off that balance, the rupee being for the time depreciated in regard to gold, what the Government will get will be rupees and not gold. That is one alternative. The other alternative is to regard the liability that will then come on the Government as having some relation, as I say, to the constitution of the coinages in the currency, so that if you had increased in the meantime your gold circulation, your liability would be less?—I think if the gold is in the hands of banks or people who are at all likely to use it, it then is effective in diminishing the liability.

7765. Would it in your opinion be an advantage in these 10 years that I am taking for the purpose of argument, if the proportion of gold should increase in the circulation, or would it not in your opinion mak much practical difference at the end of that time? I do not think as an arithmetical point it makes m difference. As I said before, I think if it is largely in the form of what may be called reserves at banks, for instance, or in the hands o ing firms, then it has a distinct effect in dimi the liability; but if it has passed out into t circumference of the circulation, it leaves ma much as they would have been. You have amount of rupees, as your rupee circulatio increased.

7766. Would not the constitution of with banks, and so on, that you are t certain extent depend upon the con general currency?—Yes.

7767. Would it be likely to be How far they might find it to their gold out, how far the demand of t lead to their parting with the g little, would depend upon th management; but assuming th

tionately divided, and that the banks and the mercantile houses had their *pro rata* proportion of the gold, that is *pro rata* to the whole circulation, I should have thought then it would diminish the liability.

7768. So that in your opinion it all comes round to the policy adopted by the banks and the keepers of these reserves?—Yes. I think it makes a great difference as to what is the destination of the gold that goes into circulation.

7769. There is another point in the same connection. I think it is in the minds of those people who favour a gold currency that at present your safeguard against any fall in exchange or crisis, consists entirely of your reserves. The point that we have so far got to with this Gold Standard Reserve is that it should accumulate until it reaches 25 millions, and that when it has reached that limit the question should further be considered. I think some of the persons who support a gold currency are afraid that at some point or other the accumulation in the Gold Standard Reserve may be stopped. If that were done, any further increases in the rupee circulation would not be, so to say, protected?—Plainly. The one is automatic up to a certain extent, and the other depends on policy and management.

7770. Do you share that apprehension at all? To what extent would you favour what they call an effective gold currency?—I have not specifically thought of that particular risk.

7771. You see my point?—I do, and I think so far an effective gold currency (which of course is assuming a great part of the question) is the more satisfactory resource.

7772. There is only one point I wish to ask you in regard to what you said in answer to the Chairman about the organisation of the India Office. I think your general view there was that it is for the Government of India really to put the Indian point of view?—I think so.

7773. You said, I think, that it would be a great responsibility if the Secretary of State were on any occasion to overrule the Government of India?—I think on material questions, certainly.

7774. At the same time, that is a responsibility, is it not, which he does not shirk from undertaking when necessary?—It may be taken possibly after an amount of correspondence and communication, or there may be an approximation of views rather than a distinct overruling.

7775. But constitutionally it is the Secretary of State who is the final authority?—Yes.

7776. And he cannot, of course, on all points and in all cases accept the views of the Government of India?—Precisely.

7777. When a question comes home from the Government of India with their recommendation, it is possible that that question may affect other than purely Indian interests?—Yes.

7778. And it rests with the Secretary of State finally to decide that question?—Certainly.

7779. So that from that point of view it is very portant, is it not, that there should be some repre- tation of the Indian views at home in addition to is urged by the Government of India in support se views?—Of course nearly all the members of ncil are representatives of Indian views.

. I was only putting it in a general way, that be unfortnnate if on any occasion there was ent representation here of Indian views?—

ith regard to the State bank, you know al policy of the State bank was approved, pproved, by the Government of India y of State when it was last discussed?

in 1901?—Yes.

they favoured the policy, but they s not very opportune for its intro-

it off with a recommendation I think, as soon as practicable?

7785. Can you state from recollection at all what were the conditions at that time which were unfavourable to a State bank?—No. I have an idea that the general basis of the proposal for the bank had fallen away. The original suggestions were suggestions on a very grand scale, and that appeared to have fallen out. I have no distinct recollection whether the Presidency banks had any decided wish for it, but they were consulted. The facts were more in the minds of other persons than myself.

7786. The idea of a State bank originally was more that it should be an instrument to help the Government in support of its new exchange policy; was that not so?—Yes, it was.

7787. And that rather fell away?—Yes.

7788. In your opinion, do you think that in the course of these 10 years the conditions for the institution of a State bank have become more, or less, unfavourable?—It does not appear to me there is the same occasion for supporting exchange that there was at that time. It appears to me that the Government policy, and the experience gained, enable exchange to be maintained without any adventitious systems. So far as that was one of the original reasons, I think that is much diminished.

7789. Would you say that the time has come, then, for some definite declaration as to whether a State bank is desirable for other reasons, or not; or is it a question that is likely to become more practicable in another 10 years?—I should rather doubt whether it would be. I should have thought the existing conditions of trade would probably continue, and that there would be no need for banking beyond the development of the existing institutions.

7790. There is an argument which I think has been put to us, that the Presidency banks have been in existence for a very long time, and that it would be dangerous to make any very large change, what I may call an historic large change. That argument would grow stronger, I presume, in the course of time, so the longer the question is left alone the more conclusive that argument would seem to be?—Especially if they develop in their business relations with the community. I think it would very much turn on whether they had generally strengthened their hold on the country, or whether it had diminished.

7791. *(Lord Kilbracken.)* About a State bank, have you thought at all about the practical question of what the constitution of the government of such a bank should be?—In the foreign State banks the president, as a rule, is, I think, a member of the Government.

7792. I mean, bearing in mind the peculiar circumstances of India?—I think it would require a strong directorate.

7793. Would that be forthcoming, do you think, in India?—I rather hesitate to give an opinion about the personnel in India at this moment. I should not like to say Yes or No.

7794. I venture to think there is no reason why you should not answer that question. We know what the circumstances are in India. Do you suggest that the directors should be handsomely paid for their work at the bank; would they have to give their whole time to it?—I think if the bank was to do a really active business in India, the directors must attend to it. The managers no doubt, would do a great deal of the routine work, but, arguing from the banks in London, I should say that the directors would have to work.

7795. Would there not be a practical difficulty in getting directors in India? Would you take directors from the men who are already on the spot for purposes of their own, or would you expect to have to import men from England especially for the government and management of the bank?—I should have thought the latter would be an unpopular course. It might fairly be said that they are not familiar with the circumstances of the people. You could hardly take them from the exchange banks.

7796. It has been suggested to us by more than one witness that this is a very considerable practical difficulty. How would you get the men to govern your bank and to manage it, unless under the supervision of

Government? Does it seem to you that that is a large and important and serious difficulty?—If I might answer it in this way, when the project was originally before the Secretary of State the idea was that the Presidency banks would be amalgamated, and that consequently their experience in India would be at the service of the State bank and the Government. I do not know that the question of remuneration or time came up for discussion, but I take it that their directors were looked on as a nucleus of men who were familiar with Indian banking. If that passes out of consideration, I should have thought there would be a serious difficulty in getting men.

7797. I think to-day it is generally assumed that the State bank would be something altogether external to the Presidency banks?—I should think, then, that it would be a serious question.

7798. (*Chairman.*) On this point, supposing you create a Central or State bank in the first place by the amalgamation of the three Presidency banks, I presume you would contemplate that you would still require local boards in the Presidency towns?—Yes, certainly.

7799. But in addition to those, you would require a central board to supervise the whole?—Yes.

7800. Would it be possible, in the circumstances of India, to find such a board, unless you fixed the remuneration at such a point as enabled the members of it to make their place of residence where the head was located, and to give up their whole time to its management?—I should have thought that would be necessary.

7801. (*Sir Robert Chalmers.*) Would there be such men that you could find in India? Speaking generally, is it not the fact that mercantile men in India devote their whole time to their business and have very little leisure for other pursuits?—That is the idea generally entertained here, certainly.

7802. The general tendency is for men in commerce in India to go over there and work very hard, and then as they come to be senior partners of their firms, to come home?—Very often.

7803. But over there, men actually doing commerce on the spot are very fully occupied indeed?—I should think fully.

7804. That makes a very great practical difficulty in securing men with the necessary experience for this suggested work of the State bank in India?—Certainly.

7805. (*Sir Shapurji Broacha.*) Even if it were the intention of the Government at that time to make a bank by the amalgamation of the three Presidency banks, the shareholders would have to choose the board?—Yes.

7806. And the men whom they choose might not have the necessary experience?—Yes.

7807. You could not fix that board yourself without going to the shareholders?—It would be very difficult to do it, certainly.

7808. (*Lord Kilbracken.*) I should like to ask you a question about the machinery by means of which the India Office deals with finance, apart from the way in which the machinery has been used or worked. You are thoroughly acquainted, of course, with the India Office system and methods, and you have also had much experience of financial operations outside the India Office. I wish to address myself to you, not considering you as an ex-official, but as a man of much practical experience in financial operations outside the India Office. From that point of view, may I ask whether you have any fault to find, or any defects to indicate, in the India Office machinery?—No. I think the Office was fortunate in the men it had. Of course, to some extent, you may separate the men from the Office.

7809. That is what I wish to do as far as possible, but I agree with you that it is impossible to separate all of it?—I should have said that the duties devolving on the financial secretary, Sir Henry Waterfield, when I first came, and subsequently his successor, were certainly onerous, both as regards the variety and the general nature of those duties. I think the Office was fortunate in having men who would work so conscientiously. It would have been perfectly conceivable that with the same machinery the work might have been less adequately done.

7810. That rather leads to the question: Can you think of any better?—There is one point, but not, perhaps, of any great magnitude. The financial affairs were, first, in the hands of Sir Henry Waterfield, and then of Mr. Abrahams, but, if I might say so, they had the advantage of an ex-official of the Treasury, yourself, who attended at the Committee always. I mean there was a certain amount of other official experience of a financial character, which was brought to bear on the subjects which came before the Committee, but which happened to be incidental—it might not be so another time. I think, under those circumstances, it must certainly be useful that the present Assistant Under-Secretary of State is a man who has had a long experience in financial work, so that his successor on the Finance Committee has the opportunity of consulting with him and devolving a certain amount of work upon him. I think in that way the mechanism for the financial work has been strengthened since I was here, and I think that, or some similar mechanism, is exceedingly important in order to cope with the necessary growth of work in the India Office.

7811. Of course we must take it as we find it, and we do not want to go back to the time of Mr. Abrahams' appointment as Under-Secretary. I am talking about the India Office as it stands?—I think some such system of having a man in that sort of position who who can reinforce the financial department is a very important principle. I think the work otherwise very well divided. I think the Accountant-General had his immediate functions well defined. The functions of the store department were important, but I think equally the mechanism for that department was quite adequate.

7812. The store department do a very large business, and I think it has been done for many years with very little attention being attracted to it or blame?—Yes. Of course there were often communications of a minor nature from India as to stores, but I think the answers were always complete, because the system of testing and examination was so perfect.

7813. To go back to the machinery of what we call the finance department proper, do you think in matters which are really urgent it involves any unnecessary delay? Is there or is there not a means of dealing promptly with matters which are really urgent?—I think there are means. As I was saying, it depends on the occupant of the post. A person who always shields himself behind the Committee can always find occasions for postponing the consideration of any question; but that is not a necessary part of the mechanism.

7814. Are there proper checks and controls, in your opinion?—I should say that under the present system there are. I think that before there was rather a want of check, not so much on the action but on the way, perhaps, that papers were brought forward. Suppose, for instance, the preparation of all papers practically devolved on one man only in the Finance Department, as head, I think the Finance Department would be in a less fortunate position then than they must be now when all that work can be checked.

7815. Do you think there are sufficient means of getting at the opinions of those who have first-hand experience of India, including that of the Government of India?—I should have thought there were.

7816. You always have, I think, on the Finance Committee, two or three men of long Indian experience representing Indian interests?—Yes.

7817. You said, in answer to Mr. Gillan, that the ultimate decision on these financial matters lay with the Secretary of State; would it not be more correct to say with the Secretary of State in Council?—Certainly.

7818. The difference is not altogether unimportant, is it?—No, I agree with you.

7819. (*Chairman.*) Did your experience lead you to think that the Indian Government is required to refer to the Secretary of State in Council unnecessarily on questions of detail; or, to put it in other words, is the

control of the Secretary of State in Council unnecessarily minute?—I cannot recall any decided instance, but it is a very difficult thing to review 10 years. I should not think the mechanism is at fault, but the question is more than I can answer at the moment.

7820 Mr. Gillan put it to you that it was felt in some quarters that the enlargement of the gold currency in India reduced the ultimate liability of the Government, whereas an increase of the silver currency increased that liability. Suppose you had an absolute option of meeting a demand for an increased currency in India either by putting a million sovereigns into circulation, or by putting the equivalent rupees into circulation and the profit on their coinage into the gold reserve; which of the two courses would you favour? I am putting it to you purely as an instance of what you would do if the decision rested absolutely with you?—I think under existing circumstances the coining of additional rupees and putting aside gold in the reserve is the most effective course; but if, on the other hand, the uses of a gold currency so develop in India that it flows back to the centres with rapidity, which seems a question rather of time and not determined at present, I confess I should rather lean in the long run to the gold currency.

7821. But before you made your choice for the gold currency, you would wish for a change in the habits of the people, would you not?—Yes, I should. I should not endeavour to deprive those parts of India that use a gold currency of the use of it, but I should not attempt to force it in any direction, and I should take advantage of all information from the spot as to the extended uses of the gold that had been paid out.

7822. I want to ask you two or three questions on subjects which we have not yet touched upon. Several of the witnesses who have come before us have advanced the opinion that it would be desirable that the purchases of silver for coinage should be more steady and consecutive, and that Government should not wait until there was a great urgent need which lends itself to the market being cornered against them; what would you say to that?—I do not think it possible to have a completely regular routine of purchases. It is plain, in a country where the monsoon determines the circumstances of the year, that in a very favourable year the demand for currency may be extreme, but it would be easy to accumulate a useless pile of rupees by adhering to some strict system. I do not think it would be possible to go on what was the system at one period in America, that is to say, buying and coining so much silver a year.

7823. Do you think that in recent years the Secretary of State has erred on the other side, or not?—Of coining too much, do you mean?

7824. No, of waiting too long before he purchases his silver?—It is rather difficult for me to answer your question categorically, because I was not here at the time you refer to, and I am not absolutely familiar with the dates. If the rupee portion of the Paper Currency Reserve was kept to an adequate figure, on which there was some correspondence between the Secretary of State and the Government of India comparatively recently, I should have thought that there would be time for the purchasing, shipping, and coining of whatever might be required.

7825. (*Sir Robert Chalmers.*) Between the call for rupees and the time when you can provide the rupees, is there not a kind of buffer provided in the Indian portion of the Gold Standard Reserve of 6 crores?—Yes.

7826. And that, in your opinion, would be its justification, I suppose?—Yes. I do not know that it makes a difference whether it is there or in the Paper Currency Reserve; but I was viewing an aggregate of from 17½ to 24 crores of silver according to the time of the year.

7827. That is, to take another way of looking at it, a certain measure of till money to meet special demands?—Yes.

7828. (*Chairman.*) You are aware, I think, that the balances both in India and in this country have been unusually high of recent years?—Yes, they have.

7829. And you would be aware, of course, that the Secretary of State has largely withdrawn the surplus money from India and removed it to London?—Yes.

7830. Do you think he was right?—It appeared to me that it was hardly a withdrawal in quite the ordinary sense of the word. By selling Council bills it was a transfer from the Government treasuries to the mercantile world to whom those rupees were paid; so it was a change of hands. No doubt it diminished the power of the Government to use that money in any other way in India, supposing they had any project of public importance that they could have paid it out for, as that money was then removed from their control.

7831. Supposing that they brought it to England with the intention, as early as possible, of either redeeming debt in London, or of preventing the creation of new debt, would you think they were justified?—Yes. I should say it came under the general question of the policy of using surplus revenue either to reduce debt or to avoid the contracting of debt.

7832. Do I understand you to think that was a wise policy in the circumstances of India?—Yes. I can understand another view being entertained of that question of policy. The existing policy has very considerable advantages.

7833. What is the alternative that you can see?—The alternative would be to borrow more largely in sterling for railways and for permanent works, but then we know that the markets were not favourable to larger borrowing and it would add to the burden of sterling debt.

7834. In that way you would have got the sums which were transferred to London by the sale of Council bills on India?—Yes, if the money was not obtained by sale of Council bills, it must have been raised by loans.

7835. What would you have done with the sums which in that event would have been retained in India?—There are works of a local kind in so large a country on which the sums retained in the Indian cash balances could be applied; but still, that would be a marked deviation from the policy up to date.

7836. But whether held in India or transferred to London, you would have taken advantage of the money to carry out some development work?—Yes.

7837. I do not think, when you were on the Finance Committee, or its chairman, your balances in London were ever so large that you had any difficulty in loaning out the surplus?—No.

7838. You are aware that in recent times they have grown so large that the ordinary approved list of borrowers was unable to take the whole of the money the India Office had to lend?—Yes. I think that may be partly owing probably to the fact that there are fewer borrowers of gilt-edged securities than there used to be. Formerly such a very large amount of Consols, India stock, and similar securities were held to run against money, but I think that is diminishing in these years; and, besides, there is the increase in the balances.

7839. The difficulty having arisen, the Secretary of State lent the money to certain London bankers, and it appears that he lent it without security; do you think Government money ought to be lent, even to the highest class institution, without security?—I do not think the banks would have taken it on the terms they gave if the question of security had been raised.

7840. I think the County Council lends money sometimes and exacts security?—It does. That is rather a long-standing arrangement with a particular bank.

7841. Is there any observation you would like to make to us which has not been elicited by the questions we have put to you?—No, nothing, thank you, personally.

7842. (*Sir Ernest Cable.*) I think Mr. Gillan was discussing with you the question of an effective gold currency. From that, I think, arises the further question whether the sovereign is a suitable circulating medium for the people of India, bearing in mind their poverty and other circumstances. What are your views on that?—Certainly there seems evidence that in certain parts of India it does circulate and is very eagerly applied for—I am assuming, from the reports, not with

an immediate view to hoarding or melting down. I would rather base my view on those facts, and say that for a considerable number of the community of India it does appear to be a convenient coin; but I quite believe that for a large portion it never can be.

7843. It has been suggested as an alternative that a 10-rupee gold piece should be coined; would you favour such a coin being in circulation at the same time as the sovereign?—I should have thought there might be some confusion, and that it would not be available for exportation on favourable terms, but would only be taken over, say, at its pure gold value, or slightly above, perhaps. I should have rather doubted whether it would bring out gold from hoards for the purpose of circulation.

7844. It might also, perhaps interfere with the circulation of the 10-rupee currency note?—Yes, of course, it would directly compete with that; and that appears to have gained ground in a satisfactory way.

7845. Some comment has been made to-day on the difficulty of forming a board for the suggested State bank in India; the present three Presidency banks are managed by local boards, and as far as you know they are well managed, are they not?—Certainly.

7846. The question, however, that was put to you was narrowed down to the question of the one central board?—Yes.

7847. (*Mr. Gillan.*) With reference to what you said in answer to the Chairman just now on the subject of a gold currency, I understand you contemplate that it is possible that the stage might be reached at which the gold in circulation will come back to the centres?—Yes.

7848. It is not clear to me how that stage would be reached. I can understand it being reached *per saltum*, with a sudden conversion of the currency, or something of that sort, but if you are only working to it gradually, as long as you have got a very large volume of rupees in the country, is it not those rupees that will come back, and not the gold? If you start with this volume of silver currency of 150 crores or 200 crores, whatever it may be, does it make any real difference whether the gold in circulation is 25, 50, or even 100 crores? How do you get over that intermediate stage?—I should have thought that if the country was saturated with gold, if the gold was a very large proportion, its mere weight, as it were, would drive it round through the channels of circulation. I have noticed one criticism made on the gold currency is that it flows back quickly to the treasuries, post offices, and railways. It is said that that is a proof that the population do not want it. I am taking this fact as some evidence that gold is not necessarily retained, and it is likely that the circulation of it will develop, at all events in the parts of India referred to.

7849. No doubt it would go on developing, but is the process not reversed every time you get a crisis?—That it would be hoarded on that occasion, or kept back, rather?

7850. Yes?—I should have thought that depended on the development of the use of gold in circulation.

7851. So that you are preparing for a gradual change in the habits of the people; that is what you are anticipating?—Following on what they have done already.

7852. (*Sir Robert Chalmers.*) If I followed your earlier answer aright, you are contemplating a system in which banking, as we understand it in this country, would play a much greater part in the habits of the people?—I think that would be a material assistance. I think the development of banking—not necessarily large banks, but local banks—would be of very great use.

7853. You are contemplating a time when every man, to use your phrase, ceases to be his own banker?—Yes.

The witness withdrew.

Mr. L. G. Dunbar called and examined.

7854. (*Chairman.*) You are Secretary and Treasurer of the Bank of Bengal, I believe?—Yes.

7855. Will you tell us briefly how long your experience of India has been?—I went to India in January 1886. I have been 26½ years in the service of the Bank of Bengal.

7856. We have had referred to us a series of questions, and I would like to take you through some of the points that arise on them. Have you any criticism to make on the size of the balances either in India or in London in recent years?—That question has been gone into by the Bengal Chamber of Commerce, and they addressed a letter dated the 28th May* to the Secretary of this Royal Commission on the subject. They generally approve of the action of the Government in the matter.

7857. Am I to take it that you concur generally in the opinions expressed by the Bengal Chamber of Commerce in that letter?—I do.

7858. As regards the balances in India, some criticism has been addressed to us suggesting that the time of the collection of the Government revenue, and the delay in its disbursement, injuriously affect Indian trade; do you share that feeling?—It is no doubt the fact that a considerable sum of money is locked up in the Government civil treasuries, but the exception that is taken in India is, as far as I know, to the reserve treasury balances, which are unduly large. The amount required to make the rates a little lower in India is, I think, quite a small sum, comparatively speaking.

7859. You speak of the sums in the reserve treasuries as being unduly large; are you putting that as the general feeling in India, or is it your own personal opinion only?—I think it is the general feeling in India.

7860. And you share it?—There are a very large number of treasuries and sub-treasuries, and one realises that there must be a certain balance kept in each one of them. Owing to the very large number of these treasuries, the aggregate balance must be large. But the reserve treasury is a mere "stocking."

7861. Setting aside for the moment the question of the creation of a State bank, to which I will come presently, do you think that the Government of India could afford to do without the reserve treasuries?—I think the amounts in the reserve treasuries should be made available to the Presidency banks, or a selected number of bankers, for loans when required, at a moderate rate of interest.

7862. You do not think a very large sum would be required for the purpose, do you?—I do not think so.

7863. Would you propose that the Government of India should not lend to anyone except the Presidency banks?—Only to approved bankers.

7864. Then that would mean the Presidency banks, or would it include certain joint stock banks as well?—It would include some few others. The Exchange banks could put up security if necessary.

7865. Would you expect to get loans without security, or would you anticipate that the banks would be called upon to deposit security with the Government?—I think the banks should be called upon to deposit security with Government.

7866. What sort of security?—3½ per cent. Government paper.

7867. You say you expect the money would be lent at a reasonable rate; what sort of rate have you in mind?—I think if Government would lend at 4 per cent. per annum the bank rate in India would then never go above 6 per cent. The 2 per cent. trading profit would be quite fair to the Banks.

7868. You do not think a 2 per cent. profit is rather a large one?—I do not—not for the risk of lending in India.

7869. Would you think it wise that the Government of India should take bills for this security from

* *See* annex to Appendix XXVI., page 601.

the banks, or would you confine them absolutely to Government paper?—At present I would confine them to Government paper.

7870. Do the banks carry, or would they carry, enough of that Government paper to enable them to obtain the sums required?—I think so. If any bank happened to be short they could come and borrow from the bank that had the paper.

7871. You suggest that the Government of India should lend at a fixed rate irrespective of the bank rate at the time?—That was only because I hear that people complain about the idea of the bank rate going up to 8 per cent. If the money was available from the Government at 4 per cent. I do not think the bank rate would ever then go up above 6 per cent.

7872. Suppose the Government were to say that within certain limits they would lend at 1 per cent. below bank rate?—The Bank of Bengal I do not think would ever take it. I do not know about the other two Banks.

7873. You do not think the difference of 1 per cent. would make it worth while to take it?—I am not sure that the Bank of Bengal would ever require to borrow even at 4 per cent. One cannot foretell, but we have not borrowed for six years.

7874. (*Sir Robert Chalmers.*) What has the bank rate been in that sort of time; what is the maximum?—It was 9 per cent. for six weeks in 1906, and it was 9 per cent., I think, also in 1908 for about six or seven weeks, but since then it has never been above 8 per cent. In 1908, I believe, the price of the crop which comes into the market about that time—rice—was very dear, and more money was required than usual to finance it.

7875. (*Chairman.*) Apart from your desire to see a certain amount of the surplus balances made available in this way for trade purposes, do you offer any other criticism on the management of the finances in recent years?—That is rather a large question. I do not think the chamber of commerce has found any other fault.

7876. In regard to the Gold Standard Reserve, do you concur in the opinion expressed, I think, by the chamber of commerce that it ought to be held in London?—I think it ought to be held in London and invested—not in gold.

7877. As regards investment, do you suggest that the whole of it should be invested?—I think the chamber of commerce say about five millions should be kept in gold and the balance invested.

7878. How do you arrive at that figure of five millions?—I take that as the amount that might possibly be required before the sale of securities became necessary.

7879. On the whole, would you agree with me that the experience of recent years has shown that the sale of securities of the first class is not always such an easy or certain operation as we used to think?—Yes, quite so.

7880. Having regard to that, do you think that five millions is a sufficient margin to allow in gold?—Opinions vary. This was discussed at the meeting of the chamber of commerce at which most of the leading merchants of Calcutta were present, and I think the words are "a sum of not less than five millions." Some wanted to say "not more than five millions."

7881. Is it your personal opinion that it would have been better to say "not more than five millions"?—I do not profess to have any special knowledge on the subject, but I was in favour of "not more than five millions."

7882. Of course that would mean that in any crisis you would have to sell securities?—Not necessarily. There are always a large number of sovereigns in the currency reserve. We could transfer the securities to the currency reserve and take the sovereigns out of it.

7883. Could you do that without an alteration of the existing law?—I cannot say.

7884. At the present time is it not the case that the amount of the securities that can be held in the currency reserve is strictly limited?—You are quite right, it is strictly limited. Government would have to pass a short special Act for the purpose.

7885. So that in arriving at five millions as the amount to be held in the Gold Standard Reserve in London, you rely for making up any possible deficiency on the gold in the currency reserve?—At present I would, as there is plenty of gold in the currency reserve which is not required.

7886. If the gold in the currency reserve fell off, would you think it necessary to revise the limit of five millions of gold to be held in London?—I would not personally. It would depend whether Government could borrow against securities in London instead of selling them. If they could borrow at a reasonable rate of interest, I would always do that in preference to selling.

7887. I suppose your object in desiring to invest as large a proportion as possible is to earn interest instead of having the money lying idle?—Simply to earn interest.

7888. You would agree, I presume, that if you are to have a Gold Standard Reserve at all, the first thing to aim at is that it should be sufficient for the purpose for which it is established?—Yes, quite so.

7889. Security is more important than profit?—Well, yes.

7890. It is a question of degree, in your opinion?—Yes, it is a question of degree. I agree with what the Chamber of Commerce say, that it would be a very unbusinesslike proceeding to have all this sum lying idle.

7891. Do you think it would be a good banker's proposition, having regard to possible liabilities, to have only five millions in cash?—I personally think so.

7892. You are, of course, cognisant of the existence of the Indian branch of the Gold Standard Reserve?—Yes.

7893. Which is held in rupees?—Yes; four millions sterling or six crores of rupees.

7894. Do you see any objection to that?—I personally see no objection to it.

7895. The Fowler Committee made certain recommendations which have been accepted and acted upon by the Government, and some others which have not been followed out; amongst other things they recommended the establishment of a gold currency—what is your view about that?—I am opposed to a gold currency as not required in India, and as a wasteful and expensive luxury.

7896. With regard to the gold which finds its way into circulation in India, have you formed any definite opinion as to how much remains actually available as currency?—It is impossible to express an opinion. My own opinion is that India is very much more prosperous than it was; the people are better off, and the ladies of the country, who must be a very large number, say 150 millions, are now wearing gold jewellery rather than silver jewellery; only the poorest class have silver jewellery now.

7897. You think then that a great deal of the gold, at any rate, that has gone into India, is not in circulation?—In the last four years India has had large crops, which have been sold at high prices. My own opinion, judging from what one sees—of course, the better class of women are not exposed to view in India—is that gold jewellery is now much more extensively worn than formerly; and in my opinion that is where a good quantity of the gold has gone.

7898. As far as currency is concerned, do I understand your view to be that the rupee is a more convenient form of currency for India than the sovereign?—It all depends upon whether you take the view of the receiver or the view of the buyer of the grain. The buyer of the grain who has to transport this money about the country prefers the sovereign; but I think the receiver, the seller of the crop that has been marketed, prefers rupees.

7899. The buyer prefers the sovereign as being handier to move?—Yes, and to count, and handle.

7900. From that point of view the note is better still?—Yes, it is, but there is the difficulty of getting it cashed. There are very few places where it can be encashed throughout India at face value.

7901. The note circulation has risen very markedly in the last few years, has it not?—Very much of late years.

7902. I suppose that has been largely stimulated by the greater facilities that have been afforded in the way of the universalisation of the smaller notes?—I think so to a certain extent. I think the increase of the note circulation, which has gone up from 46 crores in 1909 to 66 crores in 1913, that is, in four years, is merely indicative of the increasing wealth of the country. It means that 22 crores more floating capital is available in India.

7903. Does your bank attempt to encourage the circulation of notes in preference to other forms of payment?—In Calcutta and anywhere else where there is a currency office, such as Cawnpore and Lahore, we deal almost exclusively in notes; but in a place like Dacca, where there is no currency office, it is all rupees. The rupees are a great inconvenience to the bank; they are very heavy, and they cost a considerable sum to transport about, so we do all we can to encourage notes.

7904. You would like to see an increase in the note circulation?—Yes, I think so.

7905. Could Government encourage the circulation of notes any more than it does?—Yes, by opening more currency offices.

7906. Could it encourage it in any other way than that?—There is a lack of civility on the part of the subordinate Government officers. People prefer to deal with the bank rather than with the currency office.

7907. Does that affect the question of whether they get notes or rupees?—I do not think the ordinary person will go to a currency office if he can help it. He prefers to deal with a bank. I am speaking very generally; of course there are many exceptions.

7908. Does the Government ever offer inducements to you to take gold rather than notes?—They have not offered any inducements on the Bengal side to take gold at all, and there is very little gold in circulation there.

7909. But elsewhere?—Elsewhere they offer us inducements to take gold rather than rupees.

7910. Will you tell me in what way?—For instance, at Lahore, at Agra, and at Delhi, to my certain knowledge when we take a currency transfer from Calcutta when money is wanted in those three places, if we take it in rupees there is a charge of $\frac{3}{32}$ per cent. premium; but if we take it in sovereigns there is a charge of only $\frac{1}{32}$ per cent. premium, so that traders get the money from us in gold at $\frac{1}{16}$ per cent. less than we charge them if they take it in rupees.

7911. (*Mr. Gillan.*) In what centres is that?—The three places I know are Lahore, Agra, and Delhi.

7912. (*Chairman.*) Do you know the reason why the Government should make that distinction?—I understand that the Accountant-General at Bombay got alarmed at the very large influx of sovereigns, so he sent large remittances of sovereigns to those three places and others; to get rid of sovereigns at those places this inducement is offered.

7913. To that extent the Government of India is actively using its influence at those centres to put gold into circulation rather than rupees or notes?—I do not know whose orders they are; I understood it was the Accountant-General of Bombay, but I suppose the Government of India must have approved. It is outside the Accountant-General of Bombay's province, but the sovereigns came from Bombay.

7914. (*Mr. Keynes.*) Is this recent—within the last year or two?—I am not certain when it began; I should think it was fully a year ago.

7915. Does it go on now?—It was going on when I left India.

7916. (*Chairman.*) So far as it goes on, it would not be correct to say that the Government of India is purely neutral in the question of what form the currency would take, and gives the people whatever they ask for?—This is a transfer of money from the buyers of crops in Calcutta to these outlying places, and Government offer an inducement of $\frac{1}{16}$ per cent. to anybody who will take gold at these three places. They may do so at other places, but I do not know about it.

7917. In the part of India with which you are mostly concerned, is there any growing demand for gold?—The people are well acquainted with gold, but I am not aware of any demand for gold. They will take notes now in Burma, and there is little demand for sovereigns there.

7918. As far as you are concerned, would you prefer to see the Government of India encouraging the issue of notes and rupees, or would you like to see them encouraging the issue of gold?—I am not a believer in a gold currency, therefore I should prefer to see them encouraging the use of notes.

7919. Do you think that gold currency, or gold in the other forms of which you spoke earlier, would be of much value for the maintenance of exchange in the case of a crisis?—We must have a gold standard. It is the gold currency that I think is unnecessary.

7920. I was assuming that you required to maintain the standard. Do you think that gold in the currency, or the other gold in India of which you spoke which is used as ornaments, would come out for the support of exchange in a crisis?—Gold as ornaments certainly would not. I do not think the private gold would come out at all.

7921. Therefore for the purposes of exchange you would prefer to have the gold in the currency reserve, but not in actual circulation or hoards?—That is so.

7922. Now I come to the question of the State bank. Your directors have addressed a letter* to the Commission, in which they are good enough to say that they desire to place your expert knowledge and experience of finance and banking in India at the disposal of the Royal Commission; but they wish it to be clearly understood that any opinions expressed by you are your own personal views, and cannot in any way be binding upon the Board of Directors or the shareholders of the Bank of Bengal. They add, however, that they have authorised you to say that they agree with the broad principles enumerated in the letter of 28th May 1913 from the Bengal Chamber of Commerce,† of which you have already spoken; and they go on to say that if the Commission pronounce in favour of the principle of a State bank for India, formed by the absorption of the three Presidency banks under a reconstructed bank, the directors will in consultation with the Government of India at once take steps to formulate a scheme, and to lay a scheme before their shareholders for their consideration and approval. Your directors do not express any opinion there as to whether it would be desirable in the interests of India that there should be such a State bank formed; would you let us have your views on that point?—My directors did not wish to commit themselves to anything until they heard what part of the banking business done by Government was to be made over to the State bank, and on what terms. At present when we do work for Government they pay us what they call our out-of-pocket expenses, and there is very little in it.

7923. You have the use at present of considerable balances free, have you not?—We do an enormous amount of work for it—we keep up a very large establishment. I have got the figures here. Our establishment costs Rs. 2.40.000 a year, and we pay Rs. 23,000 for police guards to guard the currency chest which the bank keeps free of charge at our branches.

7924. You would not like to lose it?—That is a very different thing.

7925. I suppose if there were a State bank it would take over all the Government balances?—I think it should.

7926. And I suppose it would have to take over the management of the note issue?—I think so.

7927. Very probably it would do the business now done by the Secretary of State in London in the sale of Council bills and transfers?—I think a London office of the State bank should be established.

* Printed as supplementary note to Appendix XXV., page 596.

† Printed as annex to Appendix XXVI., page 601.

7928. Do you think it ought to be allowed to do business outside the requirements of the Secretary of State?—A proposal of that kind would meet with the combined opposition of the exchange banks. I think the State bank might be safely permitted to purchase sterling bills to the extent of, say, 20 millions a year to meet the requirements of the Secretary of State in London.

7929. You would not think it necessary to allow them to deal in exchange outside the requirements of the Secretary of State?—The exchange business is the cream of the Indian banking business; it is the best of it.

2930. What sort of capital do you think such a bank would require?—I put it down at five millions sterling.

7931. That is just about the capital of the present Presidency Banks, is it not?—The capital and reserves of the present Presidency Banks.

7932. On the establishment of such a bank would much more capital become available for Indian trade development?—All the Government money, or a considerable portion of the Government money, would be available. It would make the rates of interest lower in India.

7933. Do you think that the Government of India could safely entrust the whole of its balances to a bank with no larger capital than that?—Managed as the Presidency banks are at present, I should say: Yes.

7934. Perhaps you would consider it would be reasonable that the Government of India should require representation on the board?—Certainly.

7935. I suppose it would be necessary to maintain local boards in the different Presidencies?—I think so.

7936. And then you would have a central board sitting somewhere?—In Calcutta.

7937. Is that a *sine qua non*?—Yes.

7938. How would you propose to form that board?—There would be our Calcutta directors, and Bombay and Madras would be asked to send a director to this central board; whether they would or not I do not know.

7939. Do you think it would be easy to get and maintain a fair representation of other districts on a board which sat in Calcutta?—Calcutta is the most important town in India, and the richest and most prosperous district, and it is difficult to believe that the central board could be anywhere else.

7940. I was not intending to dispute that, but my point, as you can see, would apply equally wherever you placed the central board. What has been put to us by some witnesses is that India is so vast a country and the business men who are there are so busy with their own affairs that it would be impossible for them to meet in one central place and there to control the affairs of the bank?—That would be impossible.

7941. You think if you had a bank the supreme board would have to be for those reasons a Calcutta board?—It would have to be a Calcutta board in my opinion.

7942. Suppose that such a bank were established, and you had one or two Government representatives on the central board, ought it to have through them a right of veto?—If those duties which you have just enumerated are handed over to the new State bank, I think the Government directors should be in a position of very great authority.

7943. Of course in that case the responsibility of Government would be both very real and very great?—It is a question whether Government would be responsible. The Government directors would be acting on behalf of the Government, but I do not think the Government should take any responsibility to the public.

7944. Could they divest themselves of responsibility in the eyes of the Indian public, if directors nominated by them sat on the board and played an important part there?—I am not quite prepared to say what the Indian public would think. I do not believe the Indian public would think anything about it. They would merely know that the bank was controlled by Government directors.

7945. In your opinion would there be great advantages to India from the creation of such a central bank?—I think so, I have read the remarks of Mr. Abrahams* and also of Mr. Keynes† on the subject, and they have put the case very fully and fairly, I consider.

7946. Do you think such a bank would increase the actual banking facilities in India?—I think, including all the banks in India and the great banking community of the shroffs, that the banking facilities in India are already pretty complete. The difficulty on the Bengal side that we find is reliable borrowers to lend to.

7947. One reason for the maintenance of so many Government treasuries is the absence of bank branches which might do the business for them, is it not?—India, as you have just said, is an enormous country. At the majority of the places where Government treasuries are established there is little banking business possible, not sufficient to pay the expenses of a branch; but the Government need their treasuries all over the country as revenue-collecting centres.

7948. Then to that extent the creation of a State bank would not relieve the Government of the necessity of maintaining these treasuries?—It might in the case of a few of the bigger treasuries, but not in the case of the great number of sub-treasuries.

7949. Is there much tendency on the part of the banks to extend the number of branches?—The tendency, I think, in India is for the finance required by trade to be more and more concentrated in the seaports; these up-country places are dying away, with the exception perhaps of Cawnpore, which is a manufacturing place, and one or two places on the Bombay side.

7950. Have the banks made any serious effort to attract to themselves the hoards of the people of India?—The Bank of Bengal used to offer 4 per cent. for deposits fixed for 12 months. We got far more than we could employ, and we had to reduce the rate to 3 per cent. per annum; 3 per cent. is all we pay for fixed deposits, and we will not take deposits for short periods.

7951. Does that apply to the busy season as well as to the slack season?—The busy season is such a short period. We never borrow now for short periods even in the busy season.

7952. (*Sir Ernest Cable.*) You have branches over a large area in India, have you not?—A very large area.

7953. Do you find in the management of your branches difficulty arising from the fact that you are dealing with a large number of different people with different interests, languages, and so on? You run from Burma, on the one hand, to the north-west; do you find it hard to manage such a large area?—I do not think so. We send trusted agents to the various places, and the man on the spot is given a certain amount of control, under the strict supervision of the head office and directors; but what he does we really do not know of until, say, several days later, when his returns reach the head office.

7954. But you do not find a difficulty in managing the bank under such conditions?—No, I think not.

7955. So, from that point of view, the large area involved would be no difficulty in the case of a central bank?—I do not think so at all.

7956. You said that the cream of the business in India belonged to the exchange banks, did you not?—I meant to say that the finance of the foreign trade of the country was the cream of the business in India.

7957. I only put that to you because I understand that the exchange banks are engaging in local business as well?—So they are. We have had to reduce our rates in Calcutta for advances to jute mills to half per cent. below the bank's published minimum in order to compete successfully with the exchange banks.

7958. I always understood that the exchange banks used to think the cream of the business was the local business?—No. Look at the enormous profits they make.

7959. It would be a *sine qua non*, I think you said, that Calcutta should be the head office of the central

* Appendix XIV., page 339.

† *See* Indian Currency and Finance, published by Macmillan 1913: Chapter VII., paragraphs 28–31.

bank. If the scheme were retarded, or perhaps even vetoed, by reason of local jealousies between the Presidency towns, would you not concede the point that some neutral city should be the head office?—I do not think so. In my opinion Government should approach the Bank of Bengal and ask the Bank of Bengal to submit a scheme for a State bank. We would then approach the Bank of Bombay and the Bank of Madras, and, I think, personally, also the Allahabad Bank, the Alliance Bank, and the Delhi and London Bank, with what would be considered fair terms of absorption. Then if the banks do not choose to take them they can stay outside.

7960. Then you would suggest an amalgamation of other banks besides the Presidency banks?—That is my own personal opinion. The State bank would want more men and more offices.

7961. You have suggested, I think, in your memorandum that a central bank should undertake the management of the Gold Standard Reserve; do you mean by that that the bank should undertake the responsibility of maintaining exchange?—No; we would simply hold the fund.

7962. You would be the custodians of it?—Yes, and we would show the balances every week in our weekly statement.

7963. Has it ever been considered whether the Government of India should issue local Treasury bills if they happen to be short of money at any time?—I have heard it mentioned by brokers and other people. Mr. Reid, a broker in Calcutta, has several times, I understand, been to see the Comptroller-General about it, but I have never heard that the Government have any intention of doing so.

7964. Do you think that they could raise money in that way if they wanted it for short periods?—I think so; or they could overdraw from the Presidency banks at a very moderate rate of interest.

7965. One of the reasons brought forward for the establishment of a central bank is that it would form a link between what might be called the great banks of the country and the agriculturists, that it would link the various money markets together, and that the central bank could undertake the task of lending to agriculturists, perhaps through co-operative societies; would that be possible?—Yes. The Bank of Bengal will only deal with the central co-operative societies—I am not quite certain of the names—and only then if they are guaranteed by their directors, who are men of a certain standing; and these societies lend to village banks. So we already do that business.

7966. At present the Presidency banks tender for Government loans, and presumably they sell them out gradually at a profit; that, I suppose, would not be possible if one central bank were formed, as it would be a Government institution?—There is a very large investment demand in India for Government paper. The ordinary investor quite knows the danger of buying bazaar paper, that is paper from the bazaar, so he comes to the Bank of Bengal—and it is a very large business on our side—and he buys paper direct from the Bank of Bengal; he then knows his title is good. We charge him 6 annas or 4 annas above the market rate for our good clean paper free of law suits.

7967. The issue of new loans is, of course, a source of profit; the Government would get that if the central bank issued the loans?—It all depends. The Government can deal in Government paper, as we do, through the central bank, or else it may do as at present—ask us to tender for the loan, accept our tender, and let us do the dealing.

7968. Do you agree with the suggestion that the central bank must inevitably become a Government institution?—I do not say that it should be a Government institution. I merely say the Government should be represented on the board of directors, and strongly represented.

7969. The staff would not be Government officials?—No.

7970. (*Mr. Gladstone.*) I think you said that you would limit the securities to be given for Government loans to 3½ per cent. paper?—Perhaps I was wrong. That is the only trustee security in India, but first-class municipal debentures might be taken.

7971. Under the Bank Act you are allowed, are you not, to take port stock and municipal stock?—Municipal and port trust debentures.

7972. Would you include those?—Yes, they ought to be included.

7973. We have heard something about the way in which money can be more easily raised now on loan in India. It is the fact, is it not, that the Presidency banks are allowed to advance on certain railway securities, local companies not directly guaranteed by the Government of India, according to a schedule which they publish from time to time?—Yes.

7974. Perhaps you would favour those securities being included?—Personally, I would not.

7975. Do you not lend on those securities?—We are authorised to do so. There is one, the Darjeeling-Himalaya, which is looked on as very good. Loans depend upon the character of the borrower.

7976. Raising capital for railways in India is rather in its infancy now; but you are probably aware that there is a very considerable move in that direction, and the expectation is that much larger sums will be raised in India for branch railways under contract with Government, with not what we might call trustee guarantees, but amply secured?—Yes.

7977. There are, for instance, rupee loans with a 3 per cent. Government of India guarantee?—Yes.

7978. I suppose you would be willing to advance against those, and that those should be included?—There is no market, or a very small market, in India; and I think the bank would only take into consideration the character of the borrower.

7979. Have you personal experience of the working of the treasuries up-country; do you think they are economically worked?—I think they are very economically worked.

7980. Do you think the balances which are moved on from one place to another are kept as low as possible?—The bank's complaint is that some are kept too low.

7981. Apparently you think full advantage is taken of the improved railway facilities and telegraphic facilities as they now exist; we have had evidence, I think, that trade has increased, and the commitments of Government are larger, and the balances are now considerably greater up-country than they used to be?—I am not prepared to give an opinion on that point. I think they are very economically managed. Occasionally there may be a surplus of 50,000 or 60,000 rupees at one treasury, which is not immediately required, but will be required a little later on. It might possibly be moved somewhere else, but there would be the cost of moving.

7982. If that be the case at 200 or 300 treasuries it would amount to a large sum?—It would in the aggregate. It is only for a very short period of the year that there is any shortage of money in India, and that could easily be met of late years by the reserve treasury without touching any of this money.

7983. I am now dealing with the question whether any of these balances up-country are unnecessarily large and therefore, of course, wasteful?—Speaking generally, I should say not.

7984. (*Mr. Keynes.*) You say you have rejected fixed deposits at 4 per cent.?—We will not give 4 per cent. now.

7985. But you propose that the Government should lend to you at 4 per cent?—In times of pressure.

7986. Four per cent. is the rate that you would pay, then, in the busy season, not all the year round?—No, in the busy season. We as bankers do not mind 8 per cent. at all; it is the merchant who is to benefit by any reduction, and he often does extremely well when the rate is 8 per cent.

7987. Was your reason that if you were to employ all those funds you would lower the bank rate, and you do not wish to do that?—We had too much money. Our cash balances grew enormously, and it was no good paying 4 per cent. for money which was lying in the till unused.

7988. By too much money do you mean more money than you could use at the current bank rate?—Yes.

7989. So that you could only use the additional funds by lowering the bank rate?—No; we could not employ the funds at all—or, at any rate, only for a very short period of the year.

7990. Do you hold that the funds that you could employ are largely independent of the level of the bank rate at a given moment?—I say that it is a question of supply and demand. We got more money than we could employ by offering 4 per cent., so we reduced our rate first to 3½ and now to 3 per cent.

7991. Do you think that the demand for money at a given moment in India is independent of the rate charged for money, or not?—The demand for money in India is caused by the crops and the habits of the cultivators who want cash for the crops.

7992. Then the reason for raising the bank rate is not to choke off a certain number of borrowers?—The reason for raising the bank rate is certainly that as the borrowers increase, not being a philanthropic institution, we make them pay more for the money when the demand is in excess of the supply.

7993. If raising the bank rate chokes off borrowers, I suppose lowering it would bring new borrowers forward?—No, I do not think it would. There are times in India when we cannot lend money at any rates at all.

7994. I am speaking now, not of the very dull season, but of the eight months of the year in which there is a good deal of business doing?—We are always open to lend money.

7995. If you put the very dull season on one side, but keep your bank rate down, does that mean that more borrowers come forward who would have been deterred by a higher bank rate?—No, I do not think so at all. Money is required for trade, and borrowers pay the bank rate current for the time being.

7996. Did I understand you to say that raising the bank rate choked off some borrowers?—I do not actually mean to say that, but as pressure for money increases we make the borrowers pay more for the accommodation.

7997. That has no effect upon the number coming forward?—It ultimately has an effect.

7998. Then I suppose lowering the bank rate ultimately would have the effect of making more come forward?—There are borrowers, but it is reliable borrowers who will pay us back that we want.

7999. Do you argue that if the Government lent you money at 4 per cent. in the busy season that would keep down the bank rate to 6 per cent.? How much additional borrowing would be produced by that result?—I do not think the Bank of Bengal would borrow anything at all.

8000. Do you mean that the Bank of Bengal could already meet all borrowers at 6 per cent. if they chose?—If the Bank of Bombay and the Bank of Madras rates keep down to 6 per cent. ours would not probably go up; but if their rates go up to 8 per cent. or 9 per cent. we must support those institutions by putting up our rate too.

8001. Apart from that, do you think you could meet all demands at 6 per cent.?—We would not keep to 6 per cent. if we could get 8; but if we could get money from Government at 4 per cent. there would be no excuse for our charging more than 6. I hold that 2 per cent. would be a fair banking profit for the commercial risk of lending the money.

8002. Do you think the mere offer on the part of the Government of lending at 4 per cent. would keep the bank rate down?—That is my opinion.

8003. That is based upon your theory that the urgency of a number of borrowers in India is, apart from the slack season, independent of the bank rate?—It is independent of the bank rate. It is caused by the marketing of the crops.

8004. I am putting that point definitely, because it is a point which it is difficult for anyone used to the affairs of this country to understand?—Quite so, but the conditions in India are absolutely different. Money there is required to pay for the crop coming to market, and borrowers come to the Presidency banks first. It is not as if there were reliable borrowers going about who will borrow when our rate is 4 per cent. and will not borrow when our rate is 5 per cent.

8005. It is your deliberate opinion, in the peculiar circumstances of India, that the number of borrowers is, broadly speaking, independent of the bank rate, so that the offer to lend funds would prevent its rising to its present height?—Yes, I think so. If the Government offered to lend to the Presidency banks at 4 per cent., our rate would never go above six.

8006. It seems a simple solution.

If a State bank were to be established, do you think they could push notes in a way in which the Government cannot push them at present?—I think so.

8007. In what sort of ways?—We could have far more branches than the Government have currency offices.

8008. Do you mean that the facility of being able to cash them would encourage the people to use them?—Yes.

8009. I think you mentioned this afternoon the fact that there was no currency office at Dacca, and the fact that Dacca was a long way from Calcutta was an important part of the reason why notes are so little used in Eastern Bengal?—Yes. There is no currency office in Eastern Bengal.

8010. Have you any knowledge of why there is not? What has hindered the establishment of one?—The Government felt, I think, that they would have to transport large sums of money about the country. The Presidency Bank of Bengal in the jute season send seven crores of rupees to the Dacca district, and that gradually filters back to Calcutta. The cost of sending the seven crores is large. If there was a currency office in Dacca, the Government think they would have to provide whole rupees at their own cost.

8011. If such a currency office had been introduced in the early years, then if people had wanted to cash the notes at Dacca it would have been expensive to Government?—But rupees were wanted to pay the ryot, not gold or notes, and the cost of sending the necessary rupees would have fallen upon the Government.

8012. Do you think in the long run the extra popularity gained by the notes would recoup the Government for the initial expense?—Yes, and I also think if there was a currency office in Dacca rupees would be very much less used, and the people would take notes.

8013. Then it has been rather a short-sighted policy, you think, based upon fear of the initial expense?—It has been a short-sighted policy undoubtedly, based upon the Government's idea that it is not its duty to assist and facilitate the financing of trade.

8014. Are there any other important centres in the part of the country you have knowledge of, in which currency offices ought clearly to be opened, in your opinion?—There are a large number of centres where there are no currency offices.

8015. But no outstanding cases?—Dacca is one big one, but it has a short season. There may be others.

8016. (*Sir Shapurji Broacha.*) I suppose you would rather the bank rate go to 8 per cent. than take 1 per cent. profit on Government borrowed money?—I do not think 1 per cent. is good enough for the risk of lending the money.

8017. You simply raise the rate to 6 or 7 per cent. in a brutal way?—We do not raise the rate in a brutal way at all. We raise the rate as borrowers come and take away the money from us. If nobody came to borrow, our rate would remain at 3 per cent.

8018. If your rate was 6 or 7 per cent., would not the commercial community have a voice in your action?—The commercial community are represented by our directors, and it is our directors who raise the rate.

8019. It appears now—it has not been known to the Commission before—that a large amount of gold is taken in the north-west parts, that is to say, in the Punjab, at Agra, Delhi, and Cawnpore, because the Government give a concession of $\frac{1}{16}$?—I am not certain

about Cawnpore, but I am about the other three places. I know that our agents ask for a currency transfer payable in gold. One day our assistant, in translating a code telegram, forgot to write "payable in gold." Then there was a hullabaloo because the agent was charged $\frac{3}{32}$ instead of $\frac{1}{32}$. We checked the telegram and found the mistake.

8020. If the native merchants wanted to transfer a lakh from Bombay they would not like to go to the Government?—They would prefer the bank at even rates.

8021. Is that $\frac{1}{16}$ on the gold forcing gold into circulation?—It suits the Government to get rid of the gold.

8022. Of course, it is owing to the Government forcing this circulation of gold that more gold is going to Lahore, Delhi, and Agra?—I do not know whether the Government is pressing the circulation at all. I merely know that they charge us $\frac{1}{16}$ less for taking payment in gold.

8023. Are your directors in favour of a State bank?—They have got an open mind on the subject. They want to see the scheme. If there is nothing in it, they do not want it.

8024. They are not asking for it up to now?—The letter from the Bengal Chamber of Commerce* says, like everybody else, that there are various pros and cons. They are keeping an open mind.

8025. That is not asking for it?—It has not been brought up much.

8026. Then there is no necessity for asking the Government to have a State bank?—I think in India there is no enthusiasm about a State bank.

8027. What benefits would you give the Government and what would be the duties of the State bankers?—The benefit is not to the Government. The benefit is to the populace at large.

8028. And what is the benefit?—Efficient management.

8029. What more would you do in your circle if there were a State bank?—All this money, instead of being locked up by Government under the names of various funds, would be available for trade, and everybody would get money cheap. That is the idea.

8030. And money being very cheap, you would not borrow from the Government at 1 per cent. less?—No.

8031. What better service would you do for your circle by a State bank than you are doing now?—I do not think it would be any particular service to the shareholders of the Bank of Bengal, but it is thought by experts that a State bank would be of great service to the people of India.

8032. You cannot get more credit than at present in your circle, can you?—Not in our circle.

8033. France, England, and Germany have less than one-third the area of India, but I suppose that, having three banks, better service is rendered to each of those three countries than if there were only one bank for those three countries, whether it be the Bank of England, or the Bank of France, or the Bank of Germany?—I am not prepared to express an opinion on that. I suppose those three countries are quite different to India. Perhaps in France, Germany, and Great Britain they are better with their three separate banks, but I am not certain that Bengal, Bombay, and Madras are—they are all one country.

8034. If you could not render more service to your circle, do you think the Bank of Bombay could render better service to its circle?—The Bank of Bombay are usually harder up than we are.

8035. You have, of course, much more money to spend; but you cannot do any better service by a State bank than you already do?—I think there will be a better service in Bombay.

8036. How?—All our Bengal funds would then be ready in times of need to help Bombay.

8037. I am talking of yourself. Will you do any better service for your circle by having a State bank?—Our circle is quite comfortable at present with the bank as it is.

8038. And you could not do better service there?—We are anxious to extend the benefits of the service to Bombay.

8039. How many directors have you in your bank?—Seven.

8040. How many of them are natives?—None.

8041. Are there not any native shareholders in the Bank of Bengal?—Very few in Bengal.

8042. Suppose these three banks were amalgamated; the Bank of Bengal has more than double the capital of the Bank of Bombay and the Bank of Madras, has it not?—Yes.

8043. So the directors would be elected by the shareholders of the Bank of Bengal, as they are elected now in the Bank of Bengal?—Yes.

8044. And then, of course, the board would be the board of the Bank of Bengal?—No; there would be local boards at Bombay and Madras.

8045. I am talking of the central board. The central board would be men of the Bengal Presidency Bank?—The present very able directors of the Bank of Bengal.

8046. I do not deny their ability. How many directors have gone to Lahore and travelled through Central India or Southern India to get an idea of the extent of the business that they should do?—I think they all of them go to Simla and various other places.

8047. Simla is not a banking place?—They are all men of the leading firms, with the greatest knowledge of the country. I do not know whether they have actually been to Madras, but they certainly all go to Bombay.

8048. Do you think people who have never been to India will be able to manage native credits in India?—There is not the slightest difficulty in its being done at present.

8049. That is very easy to say; but how is it to be done?—Why should it not be done?

8050. I suppose you discount bills in your branches?—Yes.

8051. One signature is nearly always from Calcutta, is it not?—No. We discount the bills of the local shroffs. We have a native accountant and a native sub-accountant at each of our branches. They are both men of considerable standing in the place, and they advise us as to the standing of the native firms that come to us.

8052. What has all your discount, apart from the Calcutta signature, done for your branches compared with Calcutta itself?—Our best bills come from Bombay, I think.

8053. Bombay is, of course, all right?—I said, I think, to the Chairman that my experience is that finance in India is now getting centred in the seaport towns. Up-country the shroffs our branches know are all well-to-do men who seldom or never discount.

8054. Do you think Bombay will submit to your Calcutta board?—I think they would be wise to do so.

8055. Do you not know that there were three State banks at one time, one at Calcutta, one at Madras, and one at Bombay, with Government directors and Government shareholders?—And they were brought into discredit by the bad behaviour of Bombay.

8056. Quite right; but you remember you offered as a bribe to give them for their shares 500 rupees, while the liquidation would only give them 100?—I do not think that is possible.

8057. You have not gone into that?—I have never heard of it.

8058. They would never submit, and would have nothing to do with the credits being distributed from Calcutta; how are you going to surmount that difficulty?—Calcutta, in Mr. Dickson's time, made an offer to the Bank of Bombay, and I think the majority by which it was carried was something like 136 for to 134 votes against; there was only a very small majority. That was a great mistake on the part of the Bombay people.

8059. The Bombay people would not submit to it?—Unwisely, they did not submit to it.

* *See* annex to Appendix XXVI., page 606, paragraph 18.

8060. Do you think there is a chance of their submitting now?—We will leave them outside if they will not submit.

8061. Did you ask them recently their opinion whether they would like to amalgamate with your bank?—Not that I know of.

8062. I thought you said something like that?—No. I said we would offer to amalgamate if this Royal Commission decided that a State bank is advisable for India.

8063. Do you think the Government of India would lend you two crores or three crores or four crores in a time of stress, and would take upon themselves all the responsibility without any control?—Every other country has a State bank, why should not we have a State bank in India?

8064. Those State banks lend to the Government, but your State bank is to borrow from the Government?—We do not borrow from the Government at all. We support the Government very largely.

8065. Would you take charge of the duties of bankers to the Government?—Yes.

8066. There would be the management of the public debt of India, the management of the paper currency, which means about 42 lakhs or something like that, and the management of the Gold Standard Reserve Fund; would you use all that, or lock it up in a safe?—We would publish a weekly statement showing how it was used.

8067. But you would use it?—Not necessarily.

8068. What would you do with it?—It would be all in the till, and the information published weekly.

8069. Would you lend nothing from it?—We would have it as we have it at present. How much is there to lend? Very little, it is all invested.

8070. The Government would have directors on the board?—Certainly. I would have the Governor and the Deputy-Governor Government officers.

8071. Will not Government be responsible for any mistakes of the bank?—Not at all as the Government.

8072. Do you know that Mr. Mill wanted to make Government responsible for the loss of the Bank of Bombay money, and only lost his resolution by a small vote?—I believe so. It seems extraordinary.

8073. Then you say that Bombay is not in a central position?—That is so. They could send a representative over.

8074. How could they do that without the shareholders' consent?—It would have to be with the shareholders' consent.

8075. You would have the majority?—We will offer terms to the Bank of Bombay; if they do not like it they can do the other thing.

8076. Who are "we"?—The Bank of Bengal.

8077. What has the Bank of Bengal to do with it?—I am only suggesting that if this Commission decides that a State bank is advisable for India, it must go to the biggest bank and ask that bank to formulate a scheme.

8078. Perhaps the Commission may want you to formulate a scheme before they decide on a State bank; would you kindly formulate a scheme?—I am not prepared to do so. That should go to my directors.

8079. (*Sir James Begbie.*) Is it not your experience that when the bank rate is 8 per cent. less bills are offered for discount?—The shroff keeps up his price, but we do not get hundis at a higher rate than 8 per cent.

8080. (*Mr. Gillan.*) Your proposal to lend to the Presidency banks at a fixed rate suggests a question: Suppose the Government are prepared to lend in a particular district a crore of rupees at a fixed rate, how does the Government representative distribute the loan between the different centres?—That is premising that there will be any competition for it. It will be simply first come first served. The person who applied for it first would get the crore.

8081. That is to say, the Government would simply wait for an application and then would grant the first application at the fixed rate?—It is merely suggested in the interest of the merchant, who wants a lower rate than an 8 per cent. rate.

8082. According to that view you might get all the money at Calcutta and leave Bombay wanting?—We might do if the Government had only a crore; then Bombay would come to us, and we would charge them 1 per cent. higher, and they could have the money.

8083. It suggests this to me, that if you have a fixed rate for a loan from the Government with no method of judging where the money is most required ——?—I am merely mentioning a rate of 4 per cent. with the idea of preventing the Indian banks from going above 6 per cent. My own idea is that if the Government will lend at 4 per cent., the banks will not be justified in making more than 2 per cent. out of it; that is the only reason. If you make it 6 per cent., 7 per cent., or 9 per cent., then the banks would make their rates 8 per cent., and so on.

8084. The effect then would be, in your opinion, to lower the general bank rate through the busy season?—The effect, in my opinion, would be that the bank rate would not exceed 6 per cent in the busy season on the Bengal side; I cannot speak about Bombay.

8085. That is to say, on the average of the year you would be making less on your deposits?—We can guard against that by paying less on our deposits.

8086. What it means is a further reduction in the rate you are paying for your deposits?—Very probably; and the money we discard will then be available for railways and for opening up the country generally.

8087. You have told us that you get far more money than you can use?—That is so.

8088. At the same time everyone sees there is great scope for development in India?—There is a great scope for the honest development of India. We may desire to develop India, but whom can you trust to do so? The Government are the only people.

8089. Do you mean that you have not got firms working at the development of India to whom money could be given?—The firms we would trust do not come to us. They are mostly wealthy firms who get their own money; their reputation is so good that the public take shares in their companies, and so they do not come to us for loans.

8090. That is rather a curious position, is it not, where a bank refuses the provision of the capital required for the country?—I do not think it is any part of a bank's business to put up money to build, say, a railway; but it is quite a reasonable proposition to lend money to a first-class firm who want to build a railway. How is the bank to check the mismanagement, contractors swindling, and things of that sort?

8091. At any rate, you have got the position that the bank has more money at present than it can use?—I hold the view that the bank has so much money that we will not pay more than 3 per cent. Of course 3 per cent. is a high rate; English banks do not pay anything like that.

8092. When you come to the stringency of the period when there is an increased demand for money, where is that demand met from; what are the additional resources that come into the market to meet that demand?—Council bills and wire; 50 lakhs, or 100 lakhs, or 150 lakhs a week, if there is any amount of extra wires taken. The Government have got the rupees and the notes, so we have to get local money from Government.

8093. You are depending on Councils and the increase of the bank deposits in India to meet this extra demand for money?—Yes. The bank balances go down and down as the money goes to the districts to buy the crops.

8094. A good deal of money is drawn off the market in order to finance the crops, and it is not till some time later that the market is reimbursed by the Councils being drawn?—The actual money to finance the crops is found by the Presidency banks who, having no access to London, have no means of getting Council bills. When the crops come to the seaports, then the Exchange banks come in and the bills are offered to them; then they wire home to London saying, perhaps, "Send 20 lakhs extra of Councils." The Presidency banks have no means of getting Councils from London.

8095. I understand that the Exchange banks confine their business to dealing with these produce bills?—Yes, in a way, but they also finance mills and people who want to draw money to pay for produce.

8096. They do not, as a matter of fact, draw Council bills in anticipation?—Take a bank agent in Calcutta, say the Calcutta manager of the Chartered Bank; he cannot afford to have money lying idle in Calcutta to await the demand.

8097. At the time when the money is being taken off the market to finance these crops I presume a certain condition of stringency has been established?—Yes.

8098. I should have thought it would be an ordinary banking transaction for the Exchange banks to bring in some money in order to finance bills in anticipation?—Then they would have to gamble in what the rates of exchange would be. The rate of exchange does not go up until the stringency is established. The head offices of the Exchange banks are not in Calcutta; they have only an agent there, and it is questionable whether he would be permitted to borrow or draw from the head office large sums of money.

8099. There seems to be some difficulty then in the inflow and outflow of capital into India, or as between India and England. It does not come in very easily when the rate in London is high, and it does not find its way out when you have got too much money?—It is all explained in Mr. Keynes's book.

8100. What have you got to say to that?—I entirely agree with what Mr. Keynes says.

8101. As regards the relations of the Presidency towns to the up-country stations in the matter of finance, I want to read to you what was said by the Upper India Chamber of Commerce on that subject. They said, "When bankers and merchants of approved "standing have to pay abnormally high rates for "accommodation, it means that the less well-to-do "class cannot get funds for trade purposes, except at "an exorbitant cost. As high as 20 per cent. has "been paid by dealers of fair commercial standing "during the current year on short-term drafts. Be "the reason what it may, in times of dear money "Bombay and Calcutta appear always to be in the "position to pay much higher rates of interest than "up-country trade can stand, and, therefore, money "is drained to these centres generally at the particular "season of the year when it is most urgently needed "in the Mofussil for produce"?—I cannot imagine why a place like Cawnpore should expect to get money if they will not pay rates as high or higher than those ruling in Calcutta and Bombay.

8102. Is this a correct description, do you think, of the position?—I think we as a bank take first class shroff hundis up-country at the same rates as in Bombay and Calcutta. I tell our agents that they ought to get at least ½ per cent. more, but they very seldom can. What the bazaar have to pay for their money is quite another story.

8103. Going back to the import of funds from outside India, you were saying that the Presidency banks have no resort outside India at present?—They have no resort according to the charter.

8104. I want to ask whether the exchange banks are not sufficient to supply India's requirements?—The Exchange bank managers are in London, and while the Calcutta agent may have views as to the future course of money in Calcutta, it does not follow that the head office approve of his views, or that they have the funds available to let him have them.

8105. Do you think the position is affected by the fact that the Exchange banks are not purely Indian banks?—I think their head offices could with advantage be in India.

8106. But they are dealing with a number of other countries?—Yes, that is so.

8107. The Presidency banks, being purely Indian banks, perhaps take another view of the necessity of importing funds?—There is any amount of funds in India; it is simply that rupees are locked up by Government. If we could get them out of Government there would be no necessity to import sovereigns.

8108. You mean that if Government lent its balances there would be no need or occasion to bring in funds from abroad?—We want rupees and we cannot import rupees. We can import sovereigns and Councils, but it is rupees that we want, and they are locked up.

8109. You know the Presidency banks have made a great point of their not being able to resort to the London market?—They did years ago, but I think that is out of date.

8110. You think it is unnecessary?—I think it is quite unnecessary.

8111. On the supposition that the Government of India lend out the balances in India?—As I have said, the Bank of Bengal has not for six years required any money, and, as far as I know, will not require it in future.

8112. Even in the busy season?—Even in the busy season we have enough to go round. The minimum cash balance which we require for our business is 4½ crores, and we have never borrowed until our cash balance got down, say, to four crores and 30 lakhs; of late it has never been anywhere near that—we have always been over six crores.

8113. I am not quite sure what advantages you foresee in the formation of a State bank; is it that the bank would be able to encourage further the circulation of currency notes; is that one point?—I think so.

8114. And that they would be the better people to deal with the Government balances?—Yes, and make the Government balances more useful than they are at present.

8115. Is there any other particular point that you have in mind?—I put down* that their duties should be bankers to Government, to manage the Public Debt, which we do at present, to manage the paper currency, to manage the Gold Standard Reserve, and to establish a London office in order to take away the banking business now done by the India Office.

8116. Taking the internal banking arrangements of the country, that is to say, the development of the paper currency and the management of the Government balances in India, are those advantages, do you think, which are conditional upon the institution of a State bank; that is to say, could you or could you not attain them through any development of the Presidency banks?—Government does an enormous banking business of its own already, and the only question is whether a practical concern like a bank would manage that business better than Government officers now do.

8117. Could the Presidency banks manage it without amalgamation?—I think so, but it would be much better if they were amalgamated so as to have one bank. The relations between the Presidency banks I think are most friendly at present.

8118. Would it be possible under any system, for instance, to make over the paper currency to the three separate Presidency banks?—It seems difficult, but I daresay an arrangement could be arrived at.

8119. How would you divide the circulation?—That is a difficult problem and it requires much study.

8120. Could you make over the balances similarly to the Presidency banks without much calculation?—I think so. Of course I cannot speak for the other two banks.

8121. In the previous correspondence a difficulty was raised about giving the Presidency banks access to London separately without amalgamation; I take it from you the present point of view is that it is not essential or very necessary that that access to London should be given?—Since those proposals were made things have changed enormously. Money is cheap in India and dear in London, and, speaking for the Bengal Bank, we have had no occasion during the past six years to have any desire to borrow in London.

* *See* Appendix XXV., page 596.

The witness withdrew.

At the India Office, Whitehall, S.W.

NINETEENTH DAY.

Friday, 1st August 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLIAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. H. F. HOWARD, C.I.E., called and examined.

8122. (*Chairman.*) Will you kindly tell the Commission what your Indian experience has been?—I first went out to India as a member of the Indian Civil Service in 1897; since then—confining myself to my work in connection with Indian Finance—I was Under-Secretary in the Finance Department of the Government of India for three years from 1905 to 1908, and subsequently to that, since 1909, I have been Collector of Customs in Calcutta, with the exception of five months last year, when I officiated as Secretary to the Government of India's Finance Department.

8123. In the Memorandum (*see* Appendix XXIII., page 576) which you have submitted to us, I think you take the view that the total balances in India and London combined have undoubtedly been exceptionally high of recent years?—Yes, I do.

8124. But you attribute the size to exceptional causes?—Yes.

8125. In the main, to the Budget surpluses of revenue over expenditure and to lapses under the head of capital expenditure on railways?—Yes; but I think that there are certain other causes which must be mentioned, such as the fact of anticipatory borrowing, which Mr. Abrahams has drawn attention to, by which I mean that loans have been realised in anticipation of requirements to this extent—that they have been floated towards the end of one financial year, though it was intended to use them during the next financial year. Then, again, the balances have also been swelled by the postponement of the discharge of temporary debt. There are other minor points—I do not know whether you wish them referred to—such as the failure of the local Governments to spend up to their budgetted allotments.

8126. As regards the non-redemption of debt, and to a certain extent the borrowing in anticipation of requirements, would you say that at the time when that was done it was clear that the Budget surplus would be much larger than had been expected?—That is a matter which must always be doubtful. I think that we in India thought that the temporary debt might have been discharged sooner; but of course in saying that I am speaking for myself rather than for the Government of India.

8127. Am I right in thinking generally that the Indian Budgets were framed on the assumption that the surpluses at the end of the year would be reduced to figures which were much nearer normal at any rate?—Yes, I think so.

8128. It was due to the non-realisation of the Budget Estimates, either by excess of revenue or underexpenditure, that the large surpluses accrued?—Yes. I may say, with regard to that, that in the case of opium the underestimation has been, as I have no doubt the Commission have been informed, deliberate. A figure was taken which was estimated to be the normal figure which would ordinarily come in as opium revenue, and any sums received in excess of that amount were to be put by for two purposes—two-thirds for the redemption of debt and temporary obligations of various kinds; and one third for various purposes, such as sanitation and education. That, I think, was definitely explained in the various statements both before and after it occurred.

8129. The revenue was knowingly underestimated to that extent, and it was stated so; is that the case?—I prefer to put it rather differently. It was stated that our opium position is most uncertain; we are not going to do a gamble in it, but we will take what we consider to be our normal revenue and enter that as our Budget figure; we shall very likely get more than that, and if we do get more than that we shall devote it to these purposes; it is not a normal item of revenue, it is a windfall, and it must be treated as such.

8130. Would that statement be found in the Financial Statement of the Financial Member of Council?—I think I am correct in saying it has appeared on two or three occasions.*

8131. (*Sir Robert Chalmers.*) As I understand it, you did estimate on a normal basis, even for your opium revenue?—I would not use the words "even for our opium revenue." The calculation was drawn up, I think, at the time when the last Treaty with China was made. A calculation was then made as to the amounts which, if exceptional circumstances did not occur, might be expected to be received from opium year by year with the diminishing export. That figure was put down ahead; I do not think the actual figures were published ahead, but the calculations were made ahead, and I think the Secretary of State agreed to them.

8132. Those figures appeared in the Budget?—Those figures have appeared in the Budget. There may have been a difference of a lakh or two one way or the other, as the figures were rounded off in the Budget.

8133. (*Chairman.*) The figures given in the declared surpluses of India are not, are they, as large as the figures which you give in your memorandum?—I have looked at my Memorandum again (Appendix XXIII., page 577); it is liable, perhaps, to some misunderstanding. The figures which I give in my memorandum are not the actual surpluses, but they are the improvements in the surplus over the figures as originally estimated.

8134. I am not quite clear what you mean by "improvements"?—If we estimate for a surplus of a million and we get a surplus of 4 millions, there will be an improvement of 3 millions, and the figures which I have given are the extent of the improvement.

8135. Can you explain to me the causes of those large lapses of capital expenditure? As I understand, they occurred both on the part of the central Government and on the part of the local Governments?—The lapses in capital expenditure on railways, do you mean?

* *See*, for example, H.C. 155 of 1911, page 4.

8136. One of the reasons that you give for the large balances is failure to spend?—The largest item for lapses is that of the railways. I am really not in a position to answer as to that, as a railway man would be; but, generally speaking, I think the lapses are due to the fact that orders were placed in England for material and by the end of the year the material had not been supplied. In one of the years under review, that was very largely aggravated by the railway strike at home, which meant that some millions worth of rolling stock and bridge material were not delivered.

8137. In that case the failure to spend arises from inability on the part of contractors to earn, and not from any change of policy?—Not from any change of policy.

8138. Nor from any hesitation in placing their contracts or in going forward with their work?—That is so. The railway companies have on occasion complained that they do not know long enough beforehand how much they will have to spend. When lapses of that kind occur in England there will probably be supplementary lapses in India in connection with rolling stock or the putting up of bridge work when it arrives; such lapses must cause a corresponding lapse there.

8139. Do you think that any alteration would enable the railway programme to go forward with greater regularity and certainty? Could you, for instance, give the railway companies earlier knowledge of the amount that would be made available for them?—That is a question which in that form I find it rather difficult to answer. An attempt is always made, I think, to give the railway companies as early a knowledge as possible. The Railway Board, I think I am correct in saying, generally know about the end of August or the beginning of September the provisional figure which the Government of India will give the railways, and they presumably by then have got their estimates of requirements from the various railways before them, and are, or should be, in a position to distribute at once. That gives them approximately 18 months from the time of placing their order to the conclusion of the financial year to which their order relates.

8140. It is done, then, in the August or September of the previous year?—Of the year before that in which the money will be spent. There is something else to be said with regard to this question. Something has lately been done, in the last year at any rate, inasmuch as the Railway Board, or rather their accounts department, have been allowed to do what is called overcertifying indents; that is to say, if they have had a grant for 5 millions, their accounts officer is allowed to pass indents to a certain amount in excess of this as against possible lapses. Personally, I have always thought that something more might be done in the way of ear-marking railway lapses.

8141. What happens to the lapsed money at present?—It goes to swell the Government balances.

8142. It is not definitely allocated to railway expenditure, then?—No, it is not; but it has frequently been urged that it might be.

8143. In the case of the grants to local Governments which you mentioned, and which you said had in some cases not been spent, were those for railway construction also?—No. The local Governments, I think, have nothing whatever to do with railway construction at present, except possibly in the case of one little railway in Assam, and I am not quite certain whether that is still under the local Government or not.

8144. What would those grants be for?—They are mainly grants of the nature to which I have already referred, for the non-recurring expenditure on education and sanitation. A lump grant is given, and the lapse with regard to this may occur in two ways: the lump grant may be placed at the disposal of the local Government when the Budget statement is made; that is to say, only a month or so before the close of the financial year, when it obviously cannot be spent.

8145. Is the Budget statement made a month before the year to which it refers?—It will be presented about a month before the year to which it refers. Grants made out of the anticipated surplus then obviously cannot be spent within that period. Then when the year comes to which the Budget itself relates, the local Government may not wish to spend all this money at once. It has been given to enable them to build schoolhouses or to carry out some sanitary project, and it is not for recurring expenditure, and they may not wish to spend all that money in that year. Again, I imagine there are cases in which local Governments have recurring grants placed at their disposal for education purposes, but they may not be able to spend all of that at once, and of course it would be wasteful for them to attempt to do so.

8146. Am I right in understanding that in that case the money remains in the balances, but it is, so to speak, earmarked to that particular expenditure in the future?—I think it would probably be somewhat misleading to put the matter in that way, because, though the liability against the Government of India remains, the principle with regard to the balances has always been that the Government of India are the bankers of the local Governments and they can use the money whilst it is there in such a way as may be convenient for them at the time.

8147. In their published statement of accounts, are these claims against the balances shown?—I am not quite sure.

8148. (*Mr. Gillan.*) Do they not appear as balances to the credit of the local Governments in the general accounts of the Government of India?—I think that is so. I know they show at the end of each year the amount by which the local Governments have overspent or underspent.

8149. (*Chairman.*) There have been many causes, no doubt occurring more or less often but still temporary in their nature, which have helped to swell the balances, such as, in the first place, failure to expend on certain services?—Yes.

8150. In the second place, the uncertainty which attached to the opium revenue and the special caution which it was thought desirable to exercise under those circumstances?—Yes.

8151. Besides that there is always great difficulty, is there not, in India in forecasting what the revenue of the following year will be?—Yes; that must always be so.

8152. It is very largely dependent on the monsoon?—Yes.

8153. Do you know whether the Indian Government have considered whether it would be advantageous to alter the date of their financial year to the 1st October, say, so that they might have knowledge at least of the main monsoon at the time they were framing their estimates?—I have heard the suggestion incidentally mentioned, but I do not know whether it has ever been officially considered.

8154. What is your own feeling about it? Do you think it would be advantageous?—I think that it might very possibly have considerable advantages, as the position certainly ought then to be clearer; but it would require very careful examination, and there might possibly be some drawback to it which one is not in a position to see at the moment.

8155. Do you happen to know whether it is the case that they have made similar changes in Ceylon for similar reasons?—No, I do not know that.

8156. In your memorandum, I think you say that whatever causes the large balances were due to, there is good justification for them on other grounds (page 578)?—Yes.

8157. Have those grounds been in the minds of the Government of India, do you think, or is this rather an *ex post facto* justification?—As far as the opium surplus goes to which I have already referred, that has obviously been in the minds of the framers of the Budget. But I do not think I should be correct in saying that those grounds had been very prominently before the framers of the Budget: that is a point on which I am really hardly in a position to speak for them. I should say an endeavour has been made to draw up our Budgets as accurately as may be, having regard to the various risks to which we have been exposed both with regard to famines and with regard to our opium position.

8158. Do you think if the Government of India had made it a little plainer to the Secretary of State that these were rather specially cautious estimates, and that it would not be unreasonable to hope for better things, the Secretary of State might have been more ready to pay off some of the debt, or to pay off earlier, or, again, less ready to borrow?—I do not think that I should be correct in assuming that the Government of India at the time that these estimates were made, were over-cautious; but, even if they may have proved to be so after the event, I should not like to say that it would have been wise to avoid borrowing the money that we have done as opportunity has arisen. We wanted it all.

8159. I thought you did indicate an opinion that the Secretary of State might have paid off debt a little more readily than he did?—I should explain that I was referring solely to the case of our temporary debt, which we had all along contemplated paying off out of our opium surplus.

8160. Is the Secretary of State—I am not now talking of private communications which I know pass between the Secretary of State and the Viceroy—kept officially informed of the fortunes of the year?—I think I am correct in saying that he receives a telegram every week from the Revenue and Agricultural Department about the condition of the crops.

8161. Would the Finance Department communicate as a matter of course with the Secretary of State in Council if there were prospects of the Budget estimates being largely exceeded?—I think that they are in constant telegraphic communication with him the whole time while the preparation of the Budget is going on; but it is some years since I was in the Department at the time when the final Budget preparation took place, and I am not able to say with certainty. I think there are very often two or three telegrams a day.

8162. I am not speaking of the moment of the final preparation of the Budget, but after the Budget has been passed and approved. Suppose that six months later the prospects had obviously improved, and a surplus could reasonably then be counted on largely in excess of the original Budget estimate, would the attention of the Secretary of State be officially called to that, or would he be left to gather it from such routine information as was sent home?—Are you referring to the position during the year to which the Budget relates?

8163. Yes. You finally settle your Budget in the month of February or March, and the financial year begins by the 1st April; suppose that by the 1st October there was reason to anticipate a surplus of 2 millions above the Budget estimate: would that be brought directly to the notice of the Secretary of State?—I think it would be brought to the notice of the Secretary of State in this way, and obviously in other ways also:—Before that time we should have been considering our railway programme, and our programme for capital expenditure generally for the year after that; and in that connection we should be taking into consideration what our total balances would be at the end of the year under consideration. Any improvements, as they are technically called, in revenue of the kind to which you refer would, I think, then be directly brought to his notice in that connection.

8164. Suppose in the month of March it was decided, after communication between the Government of India and the Secretary of State in Council, that it would be necessary to renew bills for 2 millions in December, and suppose that by the month of October you saw that the prospects of the year were very much better than you had anticipated in March, that might have a bearing upon whether it was desirable or right under the altered circumstances to renew those bills in December. Would considerations of that kind be officially brought to the notice of the Secretary of State by the Government of India?—I am not sure that the Secretary of State has ever consulted the Government of India in connection with the renewals of these bills; he may have done so, but I cannot say off-hand whether he has done or has asked for information in that particular confiection.

8165. You do not think he does?—I really do not know exactly what the position was with regard to those bills. I was not in the department at the time the question arose, and, though I have seen certain correspondence urging the Secretary of State to pay off the balance, I do not know exactly what information was supplied to him in connection with them.

8166. I gather you do not think that the caution exercised in its estimates by the Government of India misled in any way the Secretary of State as to the prospects of the year, or induced him to borrow more money than otherwise he would have done?—My impression is that it did not.

8167. Incidentally in your memorandum, paragraph 9, page 578, you defend the piling up of these balances on the ground that they have provided you with large amounts at the present time when the price of India 3½ per cent. stock is low. That is a happy coincidence, is it not?—It is very largely a happy coincidence. I should defend them rather on the ground that they have enabled us to observe continuity in railway expenditure.

8168. And to that you attach great importance?—Yes, I attach great importance to that.

8169. As regards the possible loaning out of the funds in India, I believe the Government has offered to do that in the past on certain conditions, has it not?—That has been discussed on various occasions; I think as far back as 1899, and probably further back, there has been some discussion about it. On that occasion I think the Government of India were prepared to lend money to the banks, and the Secretary of State was willing to allow it, on the condition that they always retained sufficient funds to meet his drawings. I think I am correct in making that statement, but I do not think the correspondence is among the papers which have been shown to me. Subsequently when the question arose again, about 1905 or 1906, the Government of India were experiencing great difficulties in finding the rupees to meet the great demand for them that was going on at that time, and they represented to the Secretary of State then that there might be difficulties in making loans to banks; but I believe that when loans have been applied for on occasions of stringency they have been given. It is of course possible that they have not been applied for more, as the banks may generally have understood that any loans made would only be given at the bank rate.

8170. And on those terms there is no inducement to the banks to take the money?—There has not in recent years been any inducement; that is to say, money would probably have to be very tight before the Bank of Bengal would be willing to take money at 8 per cent. or 9 per cent. from the Government—at any rate, for anything but a very short period.

8171. Supposing the Government of India were willing to lend in the busy time, have you yourself formed any opinion as to the amount which the banks would be likely to apply to them for?—I have tried to form some opinion, but without making enquiries I am afraid any opinion would only be guesswork. As a guess, I doubt whether the banks would be able to take more than, say, a million or 2 millions sterling at the outside; but of course I would not like that to be regarded as a definite opinion, as I have not been able to make enquiries.

8172. Would you think it wise for the Government of India to lend to anybody except the Presidency banks?—I think, if the exchange banks objected to loans being confined to the Presidency banks, it would be rather hard to meet their objections, as money has been lent to exchange banks and other people in England.

8173. Would you confine it to the exchange banks and the Presidency banks?—Yes, I think so.

8174. I presume you would expect them to deposit security?—Yes.

8175. The Presidency banks already have considerable Government balances free?—Yes.

8176. And you would not advise placing larger sums with them except against security?—Only as a *quid pro quo* for some service which the Government was going to get performed for them by the Presidency

banks, such as the free management of their promissory notes or something of that kind.

8177. In that case it would be payment for services and it would not really be free—it would be the absence of interest that would give the payment for the services?—Yes.

8178. In paragraph 17 (page 581) of your memorandum you refer to the question of giving the Presidency banks power of borrowing in London; do you regard the absence of that power as a serious injury to India?—No, I do not regard it as a serious injury. I think it might prove useful to the banks to have the power, but I will not say that I consider that serious harm is being done by their not having it.

8179. Is it your idea that if they had that power they would bring money out from England in the busy season?—I think that on occasion it is possible that they might be able to assist the process which the exchange banks at present perform in bringing out funds to India.

8180. Do you think there is any reason to suppose that the exchange banks do not bring money out as freely as the circumstances warrant? I will put it in another way: do you think they would be backward in bringing out the money if they saw their way to making a profit?—I was quite prepared to answer your first question. I do not think that. The point that has occurred to me—I have not sufficient knowledge of the banking business of the exchange banks to know whether it is a good point or not—is that they might have seen their way to making a bigger profit elsewhere. Some of these banks have branches in Hong Kong, China, the Straits, and, I think, in Australia.

8181. So that their interests have not been purely Indian interests?—That is so.

8182. And they might find it to their advantage to use their funds elsewhere?—Yes.

8183. Even though India wanted them?—Even though money was tight in India it might be tight in other places.

8184. It is only for a small portion of the year that money is tight in India?—Yes, I should say a small portion of the year.

8185. We have had evidence that there is great difficulty in employing money at all in the slack months of the year?—That is so, but it is generally believed, I think, that the busy season extends over a longer period than it used to, say, 15 years ago.

8186. Supposing that the Government of India were willing to make advances, have you any views as to the source from which they can best be made; had they better be made from the treasuries or from the currency reserve?—I do not see any objection to their making advances from either their treasury balances, if they are able to do so without inconveniencing themselves, or from the currency balances.

8187. We have had it suggested to us that in some ways the currency reserve might be the most convenient source. At the present time the issue of notes is directly regulated by statute, I think?—Yes.

8188. And the fiduciary portion is fixed at a rigid figure by statute?—Yes.

8189. Do you think it would be safe to increase the fiduciary portion?—I think with the currency reserve growing as it has done, it would be possible to make continual increases from time to time in the fiduciary portion, and I think probably some increase might be made now. In connection with the possibility of temporary advances from the currency reserve, I intended of course that they should be limited by the same considerations that permanent investments of the reserve should be limited by.

8190. That they should be part of the fiduciary issue?—Yes, and that they should take the position of a temporary investment.

8191. To what limit do you think it would be safe to go in the fiduciary issue? Should you fix the limit by a percentage either of the gross issue or of the net issue of the notes?—I have endeavoured to consider whether one might fix it in some way of that kind, but I have found it very difficult to think of any percentage figure which would in all circumstances be satisfactory. I should prefer to consider the position from time to time after looking to all the circumstances of the time. The reserve has grown up so rapidly in the last few years that I find it rather difficult to generalise in that way.

8192. In any case you think it might be possible, within whatever limits were fixed for the fiduciary issue, to make available a part of that money, not for permanent investment, but for temporary investment?—Yes, I think so.

8193. And to use money so set apart for temporary investment for the relief of stringency in the busy times?—Yes.

8194. In paragraph 44 (page 590) you put in an opinion of the late Sir Clinton Dawkins on that subject, but I think you do not altogether agree with it?—No, I do not altogether agree with it. The point made by him was that the general taxpayer would be a loser.

8195. The point made by him was this rather, was it not: that if you could invest money at all you could invest it for 12 months, and that if you could afford to invest it for 12 months it would be earning less interest if you invest it for only three months or any short period?—Yes.

8196. In the busy season, I suppose, the active note circulation tends to rise?—I think I am correct in stating that it does.

8197. So that just at that period of the year you have not much reason to fear that notes will be brought back for encashment, I mean on balance?—We have got such a large margin that there would be no risk involved in loans of a relatively moderate amount being given.

8198. What I was going to suggest to you was that it is in the busy season of the year that people take out notes, and it is in the slack season of the year that they bring back notes, on balance; therefore, in the busy season of the year the call on your reserves for the encashment of notes would be less, and your power to lend would be greater; do you follow that?—I follow that; but I am not quite certain of my facts as to the extent to which the actual circulation of notes with the public extends in the busy season.

8199. If I am right in my premise, I am right in my conclusion, am I not?—Yes.

8200. Am I right in inferring from what you say in paragraph 19 (page 582) that you think the amount of rupee loans issued in India in recent years could have been considerably increased?—I speak there of "somewhat larger loans." I think it might be safe, for instance, to try to raise 4 crores as against 3 crores, but I do not think we could put a loan of 6 crores on the market and hope that we could get it taken up.

8201. Are you entirely dependent on the banks taking up these loans, or do you get a direct response from the public?—We are mainly dependent on the banks, though there have been occasions on which other gentlemen, I believe, have taken considerable interest in the loans.

8202. What is the policy of the Government of India in respect of loans? Is it their policy to place as much as they can in India?—Yes, it is our policy to place as much as we can in India. I imagine it might have been possible perhaps to have placed more in the last two or three years, and the reason that was not done was probably the fact that our balances were so high that it was not considered necessary to skim the market in that way. Generally speaking, the principle is correct.

8203. I gather that in your opinion the fixing of the rupee at 1*s.* 4*d.* has been beneficial to India?—Yes.

8204. Do you think that is the general opinion in India?—I think so among unbiassed people who have really thought about the question; but it is rather difficult to say what is the general opinion in India about anything.

8205. The Committee of 1898 recommended that India should have a gold currency in active circulation; do you think that desirable?—I think it is desirable if gold is wanted by the public to let them have it; and it is desirable for the Government to be in a position to honour both their notes and their rupees by gold, if they are called upon to do so.

8206. I quite understand the view that it is desirable that the Government should be in a position to give the public whatever it demands?—I can quite see that there is something in the argument which is generally used in support of a gold currency, that it will mean that the liabilities of Government for the redemption of rupees are less if gold is in circulation instead of rupees which would otherwise have been coined.

8207. On the other hand, would it not mean that the reserves which the Government have to meet those demands, are less also? I will take it by stages: if you put rupees into circulation you increase the Gold Standard Reserve by the profits on the coinage; that is so, is it not?—Yes.

8208. And if you put notes into circulation you increase the currency reserve?—Yes, but the position is not the same. In the case of your currency reserve you have got a metallic backing for a considerable portion of it—in fact, for the main portion of it. With regard to your rupees in circulation, the profit on coinage amounts at most to about a third, and the higher the price you buy your silver at the less your silver is, and the smaller the proportion your reserve forms.

8209. The only way in which you can increase those two reserves is by increasing either the note circulation or the rupee circulation?—Yes.

8210. If, on the other hand, you put the gold into circulation those reserves cease to increase?—Yes.

8211. Which is more valuable for the maintenance of exchange—a million in your reserve, or a million in circulation in gold?—In my opinion the million in the reserve would be more valuable.

8212. Do you think that if gold were in circulation it would serve largely to support exchange in a time of crisis?—I am very doubtful about it, but that is a point on which I think it is impossible to form any final or definite opinion.

8213. As far as the experience of 1907, 1908, and 1909 goes, what is the inference you draw?—I think at that time, though a considerable amount of gold has been absorbed, there was very little actually in circulation.

8214. At that time the Government of India gave up, I think, something like 4¼ millions of gold?—A great deal of gold was taken.

8215. Of that 4¼ millions there was actually exported, I think, only a quarter of a million?—That is very probably so, but I am not sure of the exact figures.

8216. Possibly another portion of it may have gone to prevent the import of gold* ?—Yes.

8217. But it is only to that extent that that 4¼ millions served to support the exchange at that crisis?—To the extent to which it prevented the import of gold?

8218. Either to the extent to which it was exported or to the extent to which it prevented the import of gold?—It seems to me that it would always be valuable for Government to hold gold for that special reason. There will always be a demand for gold, and if Government does not meet it it will have to be found elsewhere. By meeting that demand you help to keep up exchange to a certain extent. Whether it is as valuable a weapon as selling sterling bills on London or not I am not sure, but at any rate I think it is a valuable weapon.

8219. If such a crisis arose again, I infer from that that you think the Government of India ought not to hesitate to use its gold freely, both in London and in India?—Yes, that is my opinion.

8220. Would you be prepared to say that if you had your free choice as to whether the gold should be in circulation or in reserve, you regard the use of it in circulation as comparatively wasteful from this point of view?—I should regard it as only comparatively wasteful, because it may have its uses. So far as one can judge, gold would not come back from circulation for export but it might. It is rather difficult to answer that question, because we have tried to find out what happens to gold in India when it is absorbed, and we know really not nearly as much as we should like to.

8221. Does the Government of India, as far as you know, act upon the principle that you suggested just now in one of your answers, that they should give the public whatever they ask for without trying to force one form of currency rather than another?—So far as I am aware, that principle is acted upon. I do not know whether in some sub-treasuries it is always possible to give the coin that is required, but I imagine it is.

8222. I ask the question because we had it in evidence yesterday that in certain places, Lahore was one of them, if a bank applied for a currency transfer from Calcutta to Lahore, they were favoured to the extent of $\frac{1}{16}$ if they took gold rather than rupees?—I am not able to say whether that is correct or not; I have not heard that.

8223. Speaking generally, what is your view about a gold currency? do you think it is a necessary concomitant of a gold standard?—I do not think it is necessary, but I consider that it is most desirable that an endeavour should be made to meet any demand for gold that there might be on the part of the public. I can conceive of theoretical systems in which there is no gold currency, but I doubt whether it is practicable at the present time.

8224. If you had your own way to do exactly as you pleased, would you induce the people to take gold, or would you try to induce them to take notes and rupees?—I think I should have a certain sentimental desire to let them do as they like.

8225. That is not exactly an answer to my question, is it?—It is not that I do not want to answer any question put to me on the subject, but I feel that if you refuse to allow the public to have gold when they see that you have got it, there is always liable to be mistrust, and if there is a demand for it, I think we ought to let them have it.

8226. But apart from special circumstances with which you are not acquainted, you would not go so far as to put a premium on their taking gold?—No, I would not do that; but in cases in which gold is not immediately available there is always great public inconvenience. For instance, I believe, in France only a few months ago, if one was travelling on the Continent, it was very difficult indeed to get any gold; you got 5-franc pieces. That was only last Christmas.

8227. So that you rather infer from that that civilised countries get along with a comparatively small gold circulation?—Yes.

8228. If India has a circulation which is mainly a token currency, she is not peculiar in that?—No.

8229. Now as regards the question of the establishment of a gold mint in India, what is your view on that?—I should like to see the experiment tried. I put my answer in that form intentionally, as a great many people have said that they object to it being called an experiment.

8230. You consider that it would be an experiment, but one which you would like to see tried?—I would like to see it tried because we may get gold presented, or we may not, but I think that the probability is that in time gold will find its way to the mint; and if there is bullion, or if there are ornaments, that people wish to take to the mint, I think the mint ought to be there to deal with them.

8231. I suppose if they took those ornaments now they could get bullion value for them without difficulty?—From the bank or from a jeweller I suppose they probably could.

8232. Do you think they would have any difficulty in getting sovereigns in exchange for bullion in the form of ornaments?—I think the circumstances in which bullion might want to find its way to the mint would be those in which there would not be a large number of sovereigns available—that they would have been drained out for export, or that they would have disappeared. I am talking of the bullion and ornaments from the hoards, not of bullion which is imported by the banks, as I think your

* *See* Appendix XXIX., page 633, in this connection.

question related to the bullion and ornaments coming out of hoards.

8233. Yes. What would be the circumstances in which that form of bullion would be likely to come out—would it be under something like the pressure of famine?—The circumstances are, of course, theoretical, but we are dealing very largely with a theoretical question. I meant such circumstances as a famine.

8234. Your idea is, then, that they might bring out gold bars, or gold ornaments, and if there was a mint open, take them there to be coined into sovereigns?—At any rate they would be bought up and the person who bought them would be able to convert them into coin.

8235. What would he do with the coin when he had got it?—I do not know what he would do. I do not know who the "he" would be. If "he" was the bank, they might want to export it.

8236. If he was wanting to export it, would not bullion be just as useful for him? Would not the gold bars be as useful to him for that purpose as the gold sovereigns?—I do not know that he would get any large gold bars held in hoards. I am talking more of the small trinkets and ornaments which would come out of hoards, and might gradually find their way through the local mahájans, and so on to head-quarters, and there want some outlet.

8237. Do I understand you to think that the opening of a mint would, under such circumstances, give a power to the peasant to realise the value of the gold that he has got which he cannot now exercise?—I do not think I could press the contention that the peasant could not sell his gold for money, and I do not think I meant to say that.

8238. You do not think the advantage of it would get down to him in any way, then?—I suppose the peasant with hoards could get money for his ornaments; but it is more on theoretical grounds as regards the peasant. I think the word "anomalous" which I used rather implies that it is a theoretical objection.

8239. (*Mr. Keynes.*) Would it meet your point at all if the Government were to re-introduce the notification which I think existed in 1906 by which rupees were issued against gold bullion?—Yes, it would to some extent.

8240. In that case your peasant could bring his ornaments and get rupees for them?—And then leave it to the Government to export the gold bullion and re-import sovereigns in its place?

8241. If it wished to do so?—I think it would meet my objection on one ground, but would it not be rather introducing a new function for Government as dealers in gold bullion?

8242. (*Chairman.*) Am I right in concluding that your reasons for a mint are rather theoretical and sentimental than practical—that you approve it, rather because you find it difficult to argue against it in theory than because you believe any great practical advantage would accrue from it?—I think that practical advantages may conceivably accrue; but I think it is a duty which we owe to the public, if they present bullion when we have nominally a gold standard, that we should be prepared to convert that into coin. It might be a practical inconvenience if it is on a larger scale than the small ornaments which I mentioned as a theoretical anomaly.

8243. Would you propose to charge seigniorage on the coining of sovereigns?—No.

8244. They do in Australia?—I believe in Australia the mints were introduced not in order to supply currency but as a convenience to the mining community mainly. I believe that was the objection urged by the Royal Mint at home at the time when our proposal was first put forward with regard to the opening of an Indian mint.

8245. On the other hand, South Africa, the country where the greatest amount of gold is now produced, has not thought it necessary to have a mint, so far at any rate?—That is, I believe, the case.

8246. Does not that affect your argument? Are you still desirous of it?—Yes; I think we ought to place the facility in the way of the public in case they desire to use it.

8247. So far you have rather suggested that it would not be much used at any time, and that if it was used at all it would be used only in bad times?—It might only be used in bad times; on the other hand, the Indian mines at present produce, I believe, about 2 millions pounds worth of gold a year, which is exported, and it might be convenient to them to pass their gold through the Indian mints.

8248. Do you happen to know at all whether they are still under contract to send their gold to England?—I understand they used to be, but I do not know what the present position is.

8249. Coming now to the Gold Standard Reserve, I think it is your view that a larger sum should be held in actual gold?—Yes.

8250. Will you give me your reason for that?—If Government merely holds securities and sells them it may put them in funds to some extent, but it affords no relief to the market. If they are actually in possession of ear-marked gold, they are both in a position to utilise that, and to help to relieve to that extent a financial stringency which may exist. Apart from that there must, of course, always be a considerable loss in a great crisis by the sale of securities.

8251. Are you disposed to name any figure as the minimum amount of actual gold that ought to be held in reserve?—I would rather consider the question from time to time as time goes on; but I would like to see 10 millions, at any rate, held, and I would not mind seeing 15 millions.

8252. Under the present circumstances?—It is to be 5 millions at present.

8253. Would those figures you have mentioned be under present circumstances?—I would not sell our securities out in any hurry, but as the reserve is built up I would like to see those figures gradually got to.

8254. I think you approve of the location of the major portion of the Gold Standard Reserve in London?—Yes; provided, of course, that we also hold sufficient gold in India in some way or other.

8255. Do you approve of the existing Indian branch of the Gold Standard Reserve?—I should be quite willing to see that changed into a gold reserve and the rupees transferred to the Paper Currency Reserve; but I do not consider the matter of any great importance, one way or the other.

8256. What is the reason for keeping rupees in the Gold Standard Reserve in India?—This reserve was originally formed, I think, in 1906, or thereabouts, at a time when the Paper Currency Reserve was not nearly as large as it is now, and when there was a very great demand for rupee coinage. It was found very difficult to hold a sufficient reserve of rupees in the Paper Currency Reserve in addition to the gold that was accumulating there. After the Government of India had first tried the experiment of holding, I think, a silver ingot reserve within the Paper Currency Reserve, and had suffered very grave inconvenience in spite of this arrangement, they decided to constitute this extra reserve of rupees, and also to hold it as part of the Gold Standard Reserve.

8257. To that extent it was a departure from the original purposes of the Gold Standard Reserve?—Yes.

8258. It was, in fact, using the Gold Standard Reserve in order to give elasticity to the currency?—Yes.

8259. But you think whatever practical reasons there were for it have passed away, and there would be no objection now to transferring that silver to the Currency Reserve, with a corresponding transfer of gold from the Currency Reserve to the Gold Standard Reserve?—Yes.

8260. You observe, in your memorandum (page 587, paragraph 33), that you do not approve the action taken in 1907, when funds previously allocated to the Reserve were used for railway development in India?—Yes.

8261. You add, that it had the great incidental disadvantage of causing the public to have grave misgivings as to the policy of Government in regard to the treatment of the fund; you would, I suppose,

agree that to secure the confidence of the public is of the utmost importance in this matter?—Yes.

8262. Do you think that the public would have greater confidence if the management of the Gold Standard Reserve were subjected to some statutory conditions and safeguards?—I do not think it would make any great difference to them. I am not quite certain what kind of safeguards would be proposed.

8263. That is a question I was going to put to you if you had favoured a statutory regulation. All I meant to suggest at the moment was that it did seem, in your view, that some want of confidence had been caused, not by the insufficiency of the Reserve but by the handling of the subject by the Government?—Yes.

8264. Possibly, if statutory lines were laid down which it was known that the Government must comply with, the public confidence in the maintenance of exchange and in the general policy on this subject of the Indian Government would be strengthened?—I do not think that would be necessary, provided a clear and definite statement was made by Government to the effect that they would hold a supply of gold and a total reserve which would command confidence.

8265. In regard to the possibility of a State bank, I gather that you have not formed a very strong opinion one way or the other?—That is so.

8266. And that your ultimate decision would be very much determined by the kind of scheme that might be proposed?—Yes. It is a matter which one would like to discuss with a great many people, for instance, bankers and so on.

8267. Is it a subject to which you have had occasion to give special study?—No. I have read the papers and various discussions about a State bank, two or three times, at various periods.

8268. Under the circumstances, therefore, would you desire to express to the Commission any opinion as to either the advantages or the disadvantages, or the conditions which should attach to such a bank, beyond those which you have printed in your memorandum?—I should prefer to say nothing about it, because it is a subject on which I have got no practical knowledge.

8269. (*Sir Robert Chalmers.*) I will ask you one question, if I may, on the subject of the sale of Council Bills. The par of exchange being 1*s.* 4*d.* and there being specie points, one for export on one side and one for import on the other side, would you leave exchange to find its natural level within those two specie points and sell your Council Bills at the selling rate that was obtainable in the market; or would you be disposed never to sell under a certain figure, say, 1*s.* 4*d.*, irrespective of the specie points?—I should adopt the first course that you have suggested, subject, of course, to the fact that it would be desirable when exchange falls to cut down your offer of Councils, as is done at present.

8270. But on principle, subject to prudence and common business methods in dealing with the moment, you would follow that general scheme?—Yes.

8271. You would not be prepared to take the other line of saying, under no circumstances will I sell, say, under 1*s.* 4*d.*?—I should not. I think a great many of the criticisms in connection with the present practice leave out of sight the fact that, if you never sell under 1*s.* 4*d.*, you may find there is a large balance of trade against Australia, and then all the Australian sovereigns will come to India and swamp India. It is the gold export point from England that you have named, and it leaves out the fact that it may still be profitable to send sovereigns from Australia or from Egypt.

8272. Do you think that if the opposite policy, which you do not favour, were pursued of never selling under 1*s.* 4*d.* the Government of India could get the amount that it has at present to cover by Councils? I suggest that would depend upon the circumstances perhaps of the given year, but there is by no means a certainty that they could get it across?—I think I am right in saying that either last year or the year before was the first year, for many years at any rate, in which the Government did not sell at some period of the year under 1*s.* 4*d.*

8273. Suppose the Government of India and the Secretary of State in Council decide to make a change in the financial year, taking the 1st October as the starting point, that would mean that you would have an odd six months to get right before you got on to the new financial year?—Yes.

8274. As a practical man, in dealing with such a position would you not be disposed to begin by taking a budget for six months?—You mean to cover the transition period—for six months, or for 18 months is the alternative course.

8275. I am anxious to get your opinion?—I should be inclined, I think, subject to further consideration, to make a rough budget for the six months.

8276. You would be, of course, in an easier position then, because you would have only one unknown instead of two unknowns to guess at as compared with budgetting for 18 months?—I do not think it would be practicable to make your six months' budget in the same detail that the yearly budget is made in. I should be content with a rough budget for those six months.

8277. You would do it for six months?—I think so; that is to say, subject to further consideration.

8278. (*Sir Ernest Cable.*) There is one question that arises out of your answer to the Chairman about lapsed railway grants. It is rather difficult, is it not, for the Railway Department to spend the large sum of 10 to 12 millions at a year's notice, and lapses must occur under the present system, must they not?—I think there was very little lapse this last year when the grant was actually raised during the course of the year. I do not know exactly what the figures were.

8279. It was suggested to us by one of the witnesses that to employ these lapses, and to let the Railway Department know exactly what they have to spend, the Government of India should make out a 5-yearly programme for the railways, letting the Railway Department have 12 millions a year or whatever the sum might be, for five years, and letting them share in any surplus that might accrue. Would that be a practicable suggestion?—I do not think that that would be practicable, unless a separate railway fund was created, or some definite arrangement of that kind was made to secure continuity.

8280. Would you favour the plan, or would you not, of having a separate railway fund?—I do not think I would like to go quite so far as that, but while not being prepared to go quite to that extent, I should like to see our balances high, in view of the additional permanency which we would get for our capital expenditure. High balances such as we have got now, are an assurance that our railway expenditure will be more regular.

8281. Then you are not in favour of the close budgetting which has been talked about, and you rather like these heavy surpluses?—I think very close budgetting is impossible and dangerous in India.

8282. You would like to err on the side of caution?—Yes.

8283. I notice that in the part of your memorandum referring to the question of the amalgamation of the Gold Standard Reserve and the Currency Reserve, you do not object to the amalgamation on principle but merely because you think it might shake public confidence (page 587, paragraph 36)?—I think I do object to it on principle, and I think the fact that it might shake public confidence was only one reason for objecting to it. My own view is that they are intended to serve two different objects, and each Reserve must be managed in such a way as to ensure its securing its own object.

8284. But the one Reserve is frequently used to secure the object of the other Reserve?—If that advantage can be incidentally obtained, there is no particular objection to it.

8285. (*Mr. Keynes.*) Why are the railways not allowed to carry over unspent balances from one year to another?—I find that a very hard question to answer, because I have always thought myself that it might be possible to allow it. I have always thought personally—I am not expressing this as the opinion of Government but as my own—that it might be possible

to arrange for the railways to carry over unspent balances.

8286. What are the reasons, good or bad, which influence the Government in adopting the opposite policy?—It has been held, I believe, that it would affect the general Government ways and means programme.

8287. In paragraph 25 of your memorandum (page 585), with regard to the competition between notes and gold, you say that there is no "suggestion of "endeavouring to extend the circulation of gold to "any extent at the expense of notes." If you take a long view, is not the circulation of gold almost necessarily at the expense of notes?—It may be to some extent at the expense of rupees.

8288. Is it credible that over a long period people will continue to use rupees for large payments? Is not their inconvenience so great that their use must be something which will disappear in the course of time?—That is theoretically so; but in India we find that things which are theoretically correct are not always practically so.

8289. Is that not the actual experience? In Northern India, and some other parts, are they not getting into the habit of using gold instead of rupees; and in Bengal, and certain other parts, are they not getting into the habit of using notes instead of rupees? Is there not a general tendency to use some substitute for rupees in the case of large payments?—That is so to some extent. There is also a very rapid concurrent increase in the rupee circulation.

8290. I was not asking about that point. I was asking about the use of a particular form of exchange for large payments and for remittance. Would you maintain that there are some parts of India in which, taking a long view, it is incredible that paper should be used, and therefore that gold must necessarily be the substitute for rupees? Are there any parts of India of which you would say that was the case?—I should think it probable that there must be some competition between gold and notes.

8291. My point is that it is useless to say that we should like gold to circulate, but we do not want it to be at the expense of notes, because *primâ facie* there must always be a tendency for any gold which circulates to replace notes to some extent in the long run. Would you agree to that?—I am not quite certain that I can answer your question by an exact Yes or No. I do not think I have suggested that we should attempt to force gold into circulation at all. I would be quite happy to see it there, but I do not think it is essential, as I rather think you imply is my opinion, that we should have a large gold circulation; and I do not think the Government ought to take any steps to force gold into circulation.

8292. Do you think they would be right to take steps to popularise notes?—They have taken steps to popularise notes, and I think they have been perfectly right in doing so.

8293. And would be right in taking further steps if such were available?—Generally speaking, yes, if such steps are legitimate. I should like to know what steps it is proposed to take.

8294. Such steps as opening additional currency offices?—I think so; and I think the Government are generally taking steps to do that. I know one or two cases in which they have been improving the position of the currency offices.

8295. Would it be wise or foolish to take similar steps in regard to gold?—The steps which have been taken with regard to notes are unnecessary with regard to gold; I mean gold is a universal legal tender, and always has been since our present currency system was adopted.

8296. I was not asking about legal tender. In popularising notes, one of the things you can do is to make them available in more places?—Yes.

8297. You could also do that if you like in regard to gold?—I think notes are available at practically all our sub-Treasuries all over India.

8298. I am not asking a question of fact, I am asking a question of policy. You have agreed that it would be wise to make notes available at more places, would it be wise to make gold available at more places?—I am not quite certain that my statement was that I agreed that it would be advisable to make notes available at more places. I think we should take steps to supply notes where required, and if our present arrangements are inadequate, I think we should undoubtedly consider the question of improving them. But I do not know that I have made any admission that they were inadequate.

8299. You are not prepared to make any more precise statement on this question?—No. I am all for popularising notes and taking any steps that may be useful in that direction, but I do not think it is necessary to force either notes or gold down the throats of people who do not want them. If people prefer to take rupees, I should let them have that coin.

8300. The drift of my examination is that it is not really possible to take a neutral attitude. Whenever the Government opens a new currency office they are helping notes, and whenever they send large consignments of gold up-country they are helping gold. Unless both were available with complete facility in every centre in India, which is not the case, a perfectly neutral policy is not conceivable?—Apart from more currency offices I think I may say that in nearly every Treasury and sub-Treasury in India there is a supply of currency in three forms—gold, notes, and rupees, and they are generally available to the public. I do not think that Government at present are favouring any one form as against the other.

8301. But they are not available, if I may say so, both ways round; you cannot encash them freely everywhere?—I do not know exactly what conveniences in the form of encashment are provided.

8302. In paragraph 27 (page 586) you say that you do not think the Government "should attempt "to husband the supply of gold by refusing to give it "out when available." Do you mean by that that at a time of crisis they should give out gold in India?—Yes, freely.

8303. You do not think that they should keep their gold for the purpose of supporting exchange solely?—I consider that would tend to support exchange. In answer to a question by the Chairman I think I expressed that view.

8304. Do you think it supports exchange as completely as if it is used for export?—No. I think I have already stated that I thought it would not have the same direct effect, but it would be a valuable weapon.

8305. But not equally valuable?—I do not think it would be equally valuable.

8306. In that case why are you in favour of supplying gold in such circumstances?—We do not want to see sovereigns in India go to a premium, as I think that is rather a confession of weakness. For some years after the 1907 crisis I think sovereigns were at a premium of about 3*d.* or 4*d.* Shield sovereigns, I think, are still at a premium; but that, of course, is a fancy price.

8307. (*Chairman.*) The shield sovereign is a question of ornament, is it not?—Yes, I think so.

8308. (*Mr. Keynes.*) Do you think it would be wise to pursue that policy even at a time of crisis, bearing in mind the fact that the premium could be no more than the cost of importing sovereigns from England?—If adequate reserves are held I hope it will never come to that. That is one of my reasons for wishing to see our reserves rather stronger than they are at present.

8309. (*Sir Shapurji Broacha.*) According to paragraph 5 of your memorandum, page 577, in 1910–11 there was a lapse of 3 millions, and in that year the railway programme was 9½ millions?—Yes.

8310. Was the 3 millions carried to that 9½ millions for railway works, or was it eliminated altogether?—You can say either that it was included in the 9½ millions, or that it was eliminated altogether. The 9½ millions was the total amount.

8311. Therefore, if the previous year's figure was taken off, it would amount only to 6½ millions for that year?—I suppose it comes to that. But it is 6½ millions in addition to expenditure which had been

contemplated in the previous year, but had not been incurred.

8312. If the lapsed amount was included in the 9½ millions, then you were not authorised to spend in 1911-12 12½ millions?—No; it was 9½ millions.

8313. Would it not be an advantage that this lapsed grant should be carried forward in order to have a continuous programme to spend, say, 10 millions or 12 millions annually?—I have already expressed the view that if that could be arranged I should like to see it.

8314. What is your opinion about these lapsed grants? Should they not be added to the next year's provision?—If it was practicable I should like to see arrangements made for carrying forward such lapsed grants. At present the arrangement has been adopted of over-certifying railway indents, which should to some extent in future operate to prevent lapses on the same scale in which they have occurred before. I think that was adopted during the course of last year or slightly earlier.

8315. The Chairman suggested the changing of the budget date to October; that of course would be an impediment to the Governor coming down to the plains. What is the nature of the climate in Delhi in October; is it getting cool?—I have not heard that towards the end of October the weather is getting worse.

8316. Dealing now with the suggestion that the Presidency Banks should be given liberty to borrow in England, I do not think it would be an advantage to them to bring money out to India unless they can remit back in export bills, because otherwise the cost would be very great. If they brought it for six months, it would cost them 1½ per cent. to get the money out to India and to take the money back for payment in England. It would therefore cost them 3 per cent. more than the 3 per cent. charge for the loan, because, of course, 1½ per cent. for six months is 3 per cent. per annum. Even if they were to borrow for 12 months they would have to add 1½ per cent. for bringing it to India and taking it back to England. Therefore, if they were allowed to borrow, it would be no advantage to them unless they had the privilege of buying bills for export?—I understood that the Presidency Banks at one time were very anxious to get that liberty of borrowing in England.

8317. They were, but I do not think they would take advantage of it, if it were given to them now?—I stated in answer to the Chairman, that I did not think the absence of the power to borrow was a serious defect at the present time.

8318. If they were to buy export bills, then they would come into competition with the exchange banks?—Yes.

8319. And the exchange banks, I suppose, would object, because the Presidency Banks are subsidised banks, and therefore the exchange banks would not have fair play?—I presume the exchange banks might object.

8320. I gather that you are in favour of a mint in India?—I am in favour of it.

8321. Not for any practical advantage that might arise from it, but in order to satisfy the sentiment of the people?—And I can see that theoretically and possibly practically there might be certain advantages. I would like the experiment of a mint to be tried.

8322. You do not mind spending a certain amount of money, and afterwards scrapping the machinery, for the sentiment of the people?—I am afraid we should have to undertake the necessary expenditure in that case.

8323. Which coin do you prefer?—I should prefer the sovereign.

8324. Not the 10-rupee piece?—No.

8325. You say in your memorandum that you are in favour of exchange at 1*s.* 4*d.*?—Yes.

8326. Let us take this instance: Australia remits gold as merchandise because it has gold mines, and South Africa also remits gold as merchandise. The value of a sovereign in London is a sovereign and nothing more, and the remitters have to pay freight, insurance, interest and commission?—Yes, that is so.

8327. So it would be an advantage, instead of sending the sovereigns here, to send the sovereigns at the same rates to India, because they would have 24 days less interest to pay; you could, for instance, have sovereigns in India from Fremantle in 11 days, whereas it would take 35 days to send them to London?—Sovereigns do come very largely from Australia to India.

8328. Suppose the Secretary of State were not to sell bills up to September, and the banks satisfied their needs in India by Australian sovereigns, what would happen then?—The amount of the Australian sovereigns available varies very much from year to year.

8329. I know that in six months two years ago they sent about 11 or 12 millions of sovereigns?—The figure was very large the year before last.

8330. In that year the Secretary of State did not sell, say, until October under 1*s.* 4*d.*, and at the end of September the Secretary of State found the conditions of India were famine conditions. The Secretary of State had not taken advantage of the market rate, and he was short of funds to the amount of 17 millions. Is it a good policy if you stick to the 1*s.* 4*d.*?—I did not entirely understand your question (*i.e.*, 8325). I assumed that when you asked me whether I approved of the fixing of exchange at 1*s.* 4*d.*, you meant whether I approved generally of the fixing of the rupee at 1*s.* 4*d.*?

8331. It is just the same. The Secretary of State must sell at exchange value, that is to say, at par value, to and fro, and not stick out for 1*s.* 4*d.* at any time?—I agree. I must apologise for having misunderstood your question. I thought you were asking me generally if I agreed with the policy of fixing the rupee under the gold standard system at 1*s.* 4*d.*, and I did not understand that you were referring to this other point.

8332. You would agree that the Secretary of State must meet the market?—I quite agree with that.

8333. Do you know that the Currency Department refused to give sovereigns from 1908 to 1911, and that they did not resume giving sovereigns till 1911?—It was either the end of 1910 or the beginning of 1911.

8334. Did it create a mistrust of the currency because sovereigns were not given against rupees; do you know of any dissatisfaction in India about that?—"Dissatisfaction" is rather a difficult word to apply, I think, to the position. I think I have seen the weakness of the Government's position criticised in that they were not able to meet any demand for sovereigns.

8335. I do not remember seeing anywhere in the newspapers the Government's position being criticised?—I cannot remember definitely at this date, but I think I am correct in stating that some of the banks addressed Government on the subject. Government at that time, when their reserves were not so full, limited the amount they gave out to parcels of 10,000 sovereigns.

8336. The Exchange Banks did complain when the Government put the value down to 1*s.* $3\frac{1}{16}d.$, and they petitioned the Secretary of State here, but so soon as the par of exchange rose to 1*s.* $3\frac{29}{32}d.$, I think the complaint ceased, and that the stopping the giving of sovereigns was subsequent to that complaint?—I cannot cite any particular newspaper at the present moment, but I have certainly been under the impression that the Government's position in having no sovereigns in India has been criticised as being a position of weakness.

8337. Do you not remember a newspaper criticising the position which the Secretary of State and the Government of India created by breaking the par of exchange? I know that criticism was very serious and very severe, but I do not remember between 1908 and the end of 1910, or the beginning of 1911, any criticism or complaint for refusing sovereigns against the tender of rupees, because Government had a statutory power to refuse?—I am under the impression that criticisms were made.

8338. But the Government had statutory power to refuse to give sovereigns?—They have always retained that power.

8339. If the Government were to commence to refuse giving sovereigns now, notwithstanding having them in the Currency Reserve, I think we may infer from that that there would be something like two years during which there would not be any complaint, and that the people would get accustomed to these large reserves, as being the intention of the Government?—I really do not know whether people would get accustomed to seeing these large reserves of gold or not. I am afraid that the action of the Government in holding large reserves of gold and failing to give it out when required, would meet with criticism.

8340. If the people became aware of the intention of the Government to make as large a gold reserve as possible for the benefit of exchange, I do not think there would be much complaint?—It is possible that the complaint might not be very ——

8341. Serious?—Noisy, I would say.

8342. They are accustomed in France not to complain, but to take 5-franc pieces for all debts?—It is an inconvenience, though, that you can only claim 5-franc pieces when you are travelling on the Continent.

8343. Would not the people get accustomed, like the French people, to use silver?—I did not get accustomed to it.

8344. Would it not be better that the Government should keep the gold, when they know that it is not to the people's disadvantage, rather than that it should be the custom that the people should receive sovereigns, and then that should be stopped all of a sudden?—My position is that the Government reserves should be sufficiently strong, so that it would not be necessary for them to stop all of a sudden.

8345. (*Sir James Begbie.*) You have told us that the standard of India is nominally a gold one?—Yes.

8346. In paragraph 26 of your Memorandum (page 586), you have discussed the question of the exchange standard; is it your suggestion that the currency of India is being conducted on the lines of an exchange standard?—It has been conducted largely on the lines of an exchange standard, I think, inasmuch as Government has now practically undertaken to maintain exchange by the sale of sterling bills on London, when exchange falls to 1*s.* $3\frac{29}{32}d.$ My own view, as I think I have already stated, is that Government should also be prepared to meet demands on it for gold. That is not a necessary concomitant of an exchange standard.

8347. So far as I understand you, the present system is an exchange standard in its working?—The means adopted by Government to support exchange have been, and must, I think, necessarily continue to be, those which would be necessary to work an exchange standard.

8348. I want to see how far that applies to the Indian system. You explain this exchange standard to mean that the local currency is not necessarily redeemable in gold, but that it is kept near a fixed par with gold, by control by Government of the foreign exchanges. Do you mean that the control is exercised by the sale of bills?—Yes, that is what it comes to.

8349. When you say the scheme is to keep the local currency near a fixed par of gold, do you mean a fraction above or a fraction below par?—I mean within the gold point on one side or the other.

8350. The local currency you refer to would, I presume, include the note issue in India?—As a matter of practice I suppose that must be included. Though the exchange standard is concerned primarily with the rupee currency, the Government is, of course, equally committed in respect of the paper currency.

8351. You have already said that Government should have the option of redemption in either sovereigns or rupees?—Yes.

8352. Owing to the great increase in the note circulation, a considerable portion of the coin reserve is now held in sovereigns in the Paper Currency Department, is it not?—Yes.

8353. I think you have already told us also, that the gold held in the Paper Currency Department is the most satisfactory gold reserve held by Government from a currency point of view?—I do not know that I made that statement. What I intended to state was that, provided Government holds a sufficient reserve of gold in India, I do not regard it as very material whether they hold a separate branch of the Gold Standard Reserve there, or whether they hold the whole amount which is necessary for their purposes in the Paper Currency Reserve.

8354. The point I wanted to bring out was that in the case of the Gold Standard Reserve there is only one-third of the currency saved in the form of gold reserves?—That is so.

8355. But in the case of the Paper Currency Reserve you get the whole of the gold saved?—Yes.

8356. Would you say that these gold reserves in the Paper Currency Department have been accumulated by the Government controlling the foreign exchanges?—They have accumulated as the result of the action of the Secretary of State in limiting his Council bills to a certain extent, but I do not know that it could be said that the Secretary of State's action in limiting his bills was a control of the foreign exchanges.

8357. For the time being he has ceased to control foreign exchanges?—That is a matter of definition, I think.

8358. At any rate, so far as this reserve is concerned, the gold which has come in must have been imported at gold import point?—If gold comes in from England it must come in at the gold import point; but gold may come in from Australia, I imagine, below that.

8359. But still at a gold point?—That is a gold point, but it is not what is commonly called the gold point. In India we generally mean, when we speak of the gold point, the gold point with reference to London.

8360. In the case of that portion of the Paper Currency Reserve held in London, that would not necessarily have been laid down at the gold import point; it might have been provided by the sale of bills at a lower rate?—Yes.

8361. Now I come to the local currency consisting of rupees. We have had evidence that additions have been made to the silver currency by sales of bills at rates below the inward specie point of exchange; do you approve of that procedure?—At rates below the specie point? For the purpose of clearness may I speak of the specie point with reference to London.

8362. You may take it so?—Then my answer is, Yes.

8363. Does it not mean that India is called upon to absorb more metallic currency before an addition to the currency is due?—I do not think that follows. The position appears to me to be that if those bills had not been sold, gold would have come in from Australia below what we call our specie point with reference to London, and would have been presented at the Treasuries in demand for rupees and would have lain in the Government balances in India.

8364. In the case of the sales of bills below the lowest gold specie point, that would be adding to the currency before an addition to the currency was due, would it not?—I do not know that that necessarily follows. Do you mean if the Secretary of State sells bills below 1*s.* $3\frac{29}{32}d.$?

8365. If he sells bills below the cheapest inward specie point. Supposing Australia can import specie into India at 1*s.* $4\frac{1}{32}d.$, then if you sell bills on London below that point, does that not encourage an addition to the currency before it is due?—I do not think that it need necessarily do so. Certain remittances would have to be made by trade to India, and if it is not possible to make those remittances in the form of Council Bills, they will come out in some other form, and those remittances will require currency to enable the transactions to which they relate to be completed.

8366. Under the regulations now existing, is it not the case that the currency can be automatically increased only by the importation of sovereigns?—Automatically?

8367. That is, the only way by which you can have an automatic addition to the currency of India is by the importation of sovereigns; is that not so?—I find it rather difficult to answer that question, because again I have a difficulty of definition. I do not want to ask

you a question, but if you do not mind, may I ask this: Would you call it an automatic increase if a bank buys Councils from the Secretary of State and obtains rupees, and it is necessary, in order to supply the trade demand for rupees occurring in that way, to make purchases of fresh silver?

(*Mr. Keynes.*) Would you accept, instead of the word "automatic," "legally enforceable"?

8368. (*Sir James Begbie.*) No, I want to get "automatic" in.—If the purchase of bills necessitates the purchase of silver by Government——

8369. That would be an addition, would it not?—Would it be an automatic addition?

8370. It would not be automatic unless it were made at the gold specie point. The only way under the present regulations by which the currency of India can be added to, as I understand, is by someone importing sovereigns; I do not know of any other way in which the currency can be increased.—I should have held that it could be increased——

8371. Automatically, I mean?—I can state another method by which it can be increased. I do not know whether I should call it automatic, or whether I should not call it automatic. It is to me rather a nice matter of definition.

8372. Let us turn to another aspect of the same question. Are you familiar with the circumstances under which the decision was come to last year to undertake fresh coinage of silver?—Yes, I am more or less familiar.

8373. The position then was, was it not, that there had been very large imports of sovereigns, and there were very large quantities of sovereigns held in reserve, but the silver reserve had fallen to a low point?—It had fallen to a very low point by the middle or end of April, I think.

8374. And the Government considered it necessary to re-enforce the silver reserve?—Yes.

8375. What was wanted at that time was a substitution of silver currency for the gold in the Reserve?—For a portion of it.

8376. I would ask you whether you are aware that the procedure followed was to sell Council Bills, and to lay down money to buy the silver?—I think that was the case, but I rather fancy that the money was originally taken from Treasury balances, and remittances adjusting the transaction were made. It was after I left India on leave, and I am not certain about that.

8377. Supposing that the money was laid down in London by the sale of Council Bills, would not the effect be an addition to the total currency in India?—The effect must necessarily be an addition to the total currency in India in that case.

8378. India had, in consequence, to carry more metallic currency than was really necessary at the time, that is, she was obliged to absorb more than was necessary at the time?—In case she had used the gold, that would have been equivalent to an addition to the metallic currency, if the gold had been taken from the Government reserves against the sales of Council Bills.

8379. I am taking it that the gold was not used to buy silver, but the silver was bought by the proceeds of Council Bills, and therefore the new currency was an addition to the currency of India. Do you follow that?—I do follow it, but I do not quite understand your conclusion. It appears to me that if the public, which I understand is your point, had been equally willing to take gold as to take silver in satisfaction of the Council Bills that were sold, the gold would have passed into circulation, and that would have been an addition to the currency. I do not understand why there should be an addition to the currency if rupees are passed into circulation, when there would be no addition to the currency if sovereigns are passed into circulation, against the sale of Council Bills. That is the point I am not quite clear about. Perhaps I have not quite understood your question.

8380. The question was simply this: If the Government had used gold from their reserves last year to buy silver for the purchase of coinage, would that have been an addition to the total currency of India?—When the silver passed into circulation?

8381. Apart from circulation; my question relates to the total currency of India, which includes both the currency in the reserves and the circulation. If you part with gold and buy silver, it means, does it not, that the total amount of the currency remains the same, except that you have got more silver and a little less gold? The point I wanted to get at was this: If Government is to control foreign exchanges, it is a very important point at what stage they should intervene with the foreign exchange; would you agree to that?—Yes.

8382. (*Mr. Gillan.*) I will first refer to the matter of the change of the budget date, about which the Chairman questioned you. I think your attitude there was that considerable advantages possibly could be gained, but the fact was that the question would have to be very carefully considered?—Yes.

8383. As far as you can see, do you anticipate any practical difficulties?—So far as I can see, I cannot think of any, except, of course, the additional labour of preparing an extra intermediate budget.

8384. The difficulty of the transition period, in fact?—Yes.

8385. In any case, would you agree that even if there are some difficulties to be overcome, the advantages of getting a date which would give more certainty to the estimates of the Government of India would be so large as to make it worth while to overtake those difficulties if any method of dealing with them were found possible?—Yes

8386. I ask you that as an officer who has been practically concerned in dealing with the budget, and knows what difficulties we have at the present date which is fixed for the budget period?—Yes, there are difficulties now. I think that the exact date adopted would require very careful consideration, whether, say, the 1st October or the 1st September, or the 1st November. I think that point would have to be considered before coming to any decision. Generally speaking, it certainly seems to give us a better opportunity of more accurate budgetting than the present date does.

8387. In paragraph 25 of your memorandum on page 584, you say, "The sovereign is in fact, in my opinion, a suitable coin for India generally." I want to ask you for what particular purposes is it suitable? I suppose you would agree that the great number of payments that Indians have to make are of very small amounts with the great bulk of the population?—Yes.

8388. Have you any knowledge of the amounts that they have to pay, even in what one would consider a larger payment, that is to say, in the matter of rent?—Do you mean the total rent payable in India during a year.

8389. No, the ordinary rent payable by an individual. Would it amount ordinarily to 15 rupees for six months in the case of the small cultivator?—I think not; but it is so long since I have been in a district now that I would not like to make any definite statement.

8390. It has been suggested that except in certain parts of India, where the people are better off and have larger rents to pay, as in the Punjab, for instance, it is possible that the sovereign is not so useful for payments as it is for hoarding. Would that be your impression? If a man has both gold and silver in his possession and most of his payments are in small amounts, much less than a sovereign, and he has to consider which he is going to put in his savings and which he is going to use for his ordinary day-to-day payments, it has been suggested that he would use the silver and keep the gold?—I can best illustrate the kind of case in which a sovereign might be used by referring to the class of transactions that occur in the districts that I know, that is, in the jute districts. The payments made not only to the intermediaries but to the cultivators, are, I should think, very large. The boat bringing jute down to the headquarters of the district can have 600 or 700 rupees worth of jute on board. That may be shared by two or three men, but still the payments to each of these men must be large. Though he may be financed by the mahájan, the ordinary cultivator at the end of the jute season is frequently able to incur a considerable

amount of expenditure, for instance, in buying corrugated iron roofing. Nearly all the houses in eastern Bengal are roofed with corrugated iron now since jute has done so much for them. I suppose a sovereign would come into transactions of that kind.

8391. These jute tenants are able to pay more than 15 rupees in rent; I am not sure that you are not considering rather a larger kind of man than I am thinking of?—The people in the districts with which I am acquainted with are probably among the better-off cultivators.

8392. (*Chairman.*) In a case of that kind has gold any advantage over notes?—No, I do not think it has.

8393. Would the notes be acceptable to the cultivators who send in the jute?—It is a very curious fact that the cultivators in Eastern Bengal prefer silver rupees to anything else, and they do not care about gold or notes. The value of the jute crop, I think, was estimated a few years ago at something like 40 crores, which is 26 or 27 millions sterling. There is always an enormous outgoing of rupees at the time when the crop comes on the market, and it takes a very long time for those rupees to come back again. What happens to them I do not think anybody has ever yet found out.

8394. (*Mr. Gillan.*) The point I was going to put was that in those parts of India where you have payments on a very small scale, it is conceivable that a 10-rupee gold coin would be more useful than a sovereign, that is, if the ordinary payments are very small?—Certainly.

8395. In the same paragraph to which I have referred, paragraph 25, page 585, you suggest that "it is "possible that a 10-rupee piece might compete with the "10-rupee note to a greater extent than the sovereign "does." That result would follow only, would it not, if the 10-rupee coin were found to be more convenient than a 15-rupee coin?—I meant the 10-rupee pieces might be suitable for smaller transactions than the sovereign would.

8396. Unless a convenience were found in fact in the 10-rupee coin which the sovereign does not serve, it would not compete to any large extent with the note?—That is so.

8397. That leads up to the question of the gold mint. I do not know if you would say that the mint, if started, is likely to be scrapped within a few years?—I should not think there was any prospect of that at all. When using the word "experimental" I did not mean to say that it was to be put up and scrapped in a few years. I meant that the mint should be opened with the object of meeting any demand that might occur.

8398. At any rate, if it was said that a gold mint, if opened, will certainly be scrapped in a few years, you would perhaps agree that that involves a certain amount of assumption?—Yes.

8399. At the end of that paragraph to which I have just referred, you, in dealing with the gold mint, point out that gold "is now the standard metal of the "Indian currency" and that "gold bullion in India "can only be converted into legal tender currency in "India by being sent to England (or Australia) and "there coined into sovereigns" (page 585)?—That is so.

8400. You refer to that as an anomaly?—Yes, I do.

8401. That anomaly is, to a certain extent, is it not, a support to the sentiment to which you have referred in favour of a gold mint?—Yes.

8402. With regard to the Paper Currency Reserve, there is only one question I wish to ask you, and that is about paragraph 43 on page 590. You are there dealing with the form of the investment in the case of the paper currency, and you say that "when investments were "made in sterling securities the gold position of the "Government was very much weaker than it is now, "and it was desired to strengthen it. Circumstances "have now changed," and that side of the Government of India's defences "should be secure." Is that not rather regarding the Paper Currency Reserve from the point of view of the support of exchange purely?—Yes, it does seem to be.

8403. Would it not be better to say that the first, is in fact, we may almost say the only, point to be considered in dealing with the Paper Currency Reserve is the question of convertibility, the securing of absolute security for the encashment of notes? Would you agree with that?—Yes, I should agree with that.

8404. From that point of view, it possibly will be better to mix your securities a little, and not to keep them all in one basket?—I think that is what I intended to say.

8405. That was not clear to me?—I intended to imply that as well, though I think that at the time the other aspect of the case, the exchange aspect of the case, did enter into consideration as far as I remember. My idea in making the suggestion was that we should not put all our eggs into one basket.

8406. Now I want to put a few questions about railway finance. The suggestion has been made that we should have in advance a railway programme for a certain number of years. The first point I would like to make clear in connection with your knowledge, is that this is a question which, as a matter of fact, has been very carefully considered from time to time by the Government of India and the Secretary of State?—It has been very carefully considered, and the Mackay Committee,* I think, went over the question again. I think it has always been found to be impracticable.

8407. There was, as a matter of fact, at one time, a three years' programme in force, was there not?—That was always subject to the qualification, I think, that in the event of any calamity such as famine or war, it might be necessary in the later years of the programme to reconsider the provisional allotments.

8408. I will come to that. There was a three years' programme which you describe as being more or less a nominal one?—Yes, or provisional.

8409. It was dropped, or rather, it was discontinued, because it was found to be of no great practical importance?—It was discontinued, I think, under the Secretary of State's instructions so far as I recollect.

8410. There are difficulties, are there not, when dealing with a programme so much in advance, that is to say, the Government of India have found it difficult enough to anticipate what they are going to get in the Budget year immediately following?—That is so.

8411. This would involve their anticipating the general financial position for the next three or perhaps five years?—Yes. I think in reply to Sir Ernest Cable I expressed my opinion that it was not practicable.

8412. So that if Government undertook this responsibility of a three years or five years' programme, they would have to harden their hearts and say that they would find a certain sum of money whether there was famine or war or an unfavourable aspect of the London money market, or whatever happened?—That is so.

8413. Without some undertaking of that kind, the programme would be found ineffective?—I think that is the case; in fact, I meant to express that view when I said that in order to have any guarantee of maintaining the programme you would have to maintain some railway fund.

8414. About this question of the lapses; in the same way I should like first to make it clear, if you happen to know about it, that that again is a question which has been very carefully considered?—I think it has been considered several times, and views have been expressed on both sides very strongly.

8415. Do you happen to know, for instance, whether it was considered by the Mackay Committee?—I think it was.†

8416. You do not remember what they said about it?—I do not remember the exact statement they made about it.

8417. I think you express yourself as being in favour of some re-allotment of the lapses?—Yes. I would like the question to be re-opened, at any rate.

8418. Suppose you have given the railways this year 12 millions and next Autumn when you come to a revision of your budget arrangements, the railways tell you that they will not be able to spend 12 millions, but they will spend 11 millions; you do not mean, do

* Cd. 4111, page 10, paragraph 7.
† „ pp. 27–8, paragraph 34.

you, that that million of a lapse should necessarily and automatically be re-allotted to the railways for 1914–5 ?—I am not under the impression that the railways would be getting more money, which I believe a lot of people understand will be the case, or that this is implied by the re-allotment of lapses. If it is found at the end of 1911–12, say, that a million is going to lapse, and that it is going to be re-allotted, the railways will get a million less from some other source, but they will know that they have got that million and that that money is earmarked for the particular expenditure or liability for which it was originally granted. The great difficulty with many of the railway companies, I believe, is that at the end of the year—I am speaking of individual companies now and not of the railways as a whole—they have got large stores ordered, and they have got the money to pay for them, but they find that their stores are not delivered, and so their grant G lapses. They have also got their programme made up for the next year and an allotment for that, and on the top of this they have got to pay their half-million for the railway wagons ordered in the previous year, and so they have got to disturb all their provisional allotment which they have made for the forthcoming year.

8419. What appears to me is that if the lapse of the one million is foreseen, the Government of India cannot keep it in a separate pocket but it must go into their balances, and they must reconsider the division of the whole of their funds among the whole of their railways ?—The position, as I take it, is that these lapses are not always foreseen. The railway lapses as estimated have, I believe, on more than one occasion been very much less than they have proved to be when the final estimates were made up.

8420. That is precisely the point I was trying to put. Will you distinguish between a foreseen lapse and an unforeseen lapse ?—A foreseen lapse is taken into account.

8421. And must be necessarily ?—And must necessarily be taken into account.

8422. When you say that you are in favour of the re-allotment of lapses do you mean the foreseen lapses ?—If it is put in that way I should, but I should much prefer, if it were possible, to make the railway programme more self-contained. If I can make myself clear in the matter, I mean that Government should, in making their revision in March with regard to the foreseen lapses, say : We will not get this lapse, this is allocated to the railway company against their programme of the past year, so we have not got this money to play with for the year on which we are about to enter.

8423. (*Chairman.*) You would, in fact, carry it into a suspense account ?—Yes. The position would be the same as the one Mr. Gillan is putting to me, but I should be inclined to think that if any arrangement of the kind was practicable, it should be put in a somewhat different way.

8424. Suppose that to a particular railway there had been allotted a certain sum of money in the year 1911–12, and that included half a million for rolling stock, but owing to a strike in this country or to other reasons, the contractor failed to deliver ; what happens to that half million ? Suppose that it had been planned further to give the company in 1912–13 one million, does the company then get a million and a half, or does it still only get one million ?—The company has to make the best terms possible with the Railway Board to increase their grant if they can, I imagine : but very often they may have to cut down some of their other expenditure in order to provide for that half million.

8425. So it might happen that, having got a plan of railway construction for the coming year, the railway company has had at the last moment to halve that plan because a contractor has failed to deliver supplies, and so they could not be paid for within the previous year ?—That is what I have understood from the railway authorities does happen, and that is where the pinch really comes—it is in the lapse of the individual company.

8426. (*Lord Faber.*) Would there be any difficulty, in your view, in a Railway Board, so to speak, being appointed for India, and that Board laying down a policy of borrowing five years ahead some millions every year in London, it does not matter how many millions, but we will say 5 millions ; those 5 millions are paid over to the Board every year, and the Board then have to consider how that money should be allotted to the railways ; then if a railway one year is not able to spend the exact amount allotted to it, it gets it the next year ; or it might almost go in the other direction, although that is more difficult, and if they spend rather more in one year than is allocated to them, it would come off the next year. Would there be any difficulty in that if you get clear away from the Indian Budget, so to speak, and have a separate compartment altogether ?—That question generally was one of those that did come up before the Mackay Committee.* They said,† We will borrow in London, I forget whether it was 7 millions or 8 millions, or what they said, but actually the first year it was 2 millions, then it was one-and-a-third, I think, and the next year it was about a quarter of a million, and so the scheme broke down by its own weight—wholly on that account.

8427. Why did they change their policy ?—I think India 3½ per cents., which are now at 86, were at 97 then.

8428. When you are getting good returns as you are getting on the Indian railways now—it is something over 5 per cent. on the whole of the railways—is it the right policy, in your opinion, to disregard at the moment the price at which you issue the stock, looking to the ultimate needs of the whole railway system of India ? Surely you would not postpone, would you, because you would have to pay a little more for the money than you are in the habit of paying ?—I am not familiar enough with the London market to know what would be the best course in those circumstances. It might be possible, one would think, to borrow money repayable in instalments over 20 years or something of that sort, and in that way to get better terms. Apparently, conditions have been fairly stringent in the last year or so. I should personally have liked to be able to ensure some continuous system of borrowing, but apparently that has not been found practicable. As to keeping the railway finance in a separate compartment, I do not know that I find it possible to express any view about that. You have to consider what you would do in a bad year. It is only four years ago, I think, that the railways were not making both ends meet.

8429. Loose balances in the Indian budget are not desirable. It is better to take a railway balance out of the Indian budget and earmark it for the railways, is it not ?—I am not quite certain that the Mackay Committee did not consider that point of the constitution of a separate railway fund,* but I think I am correct in stating that they were rather doubtful whether it would be practicable. It would be possible to employ at once for capital expenditure all the money which at that time they could look forward to being able to raise ; I think that was rather the conclusion that they come to.

8430. (*Sir Robert Chalmers.*) May I ask you a question as regards the way in which on this hypothesis you could borrow : Would you borrow with reference to the amounts that you have found would actually come in course for payment and require an issue ? Let me make it a little plainer to you ; assuming that the idea is that 5 millions will be spent—that is the basis on which you start—then it is found as the time comes for borrowing, that as a matter of fact at that time only 4 millions would be actually needed as the first instalment, would you not restrict your borrowing to the 4 millions that were actually required as a matter of ways and means ?—I cannot help returning rather an evasive answer to that question. I think that the position is one in which one would require a very intimate knowledge of the market.

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* Cd. 4111, paragraph 29, page 21.
† „ „ 20, „ 15.

8431. Is it not a very simple proposition that you borrow in order to issue, and you borrow only that amount which you need to issue at the time?—In our case it has been found so difficult to borrow all the money that we want, that the Mackay Committee recommended that we should borrow in advance with reference to the position of the market at the time as well as with reference to our immediate requirements.

The witness withdrew.

At the India Office, Whitehall, S.W.

TWENTIETH DAY.

Wednesday, 6th August 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. THOMAS SMITH called and examined.

8432. (*Chairman.*) Will you kindly tell the Commission what your Indian experience has been?—I have set it out in an outline of my evidence which has probably been handed to the Commission.

8433. Yes. I propose to print the memorandum which you have submitted (*see* Appendix, No. XXVII., page 612), so that we need not repeat the whole of it in your evidence, but I would just like to have on record with your evidence the brief account you have given of your Indian experience. You have had 18 years' experience?—Yes, 18 years' experience in India, for 17 years of which I have been agent of the Allahabad Bank.

8434. Mainly at Cawnpore and Calcutta?—Mainly at Cawnpore and Calcutta, yes.

8435. How much of your time has been spent in Cawnpore?—Between 12 and 13 years, and 4 years in Calcutta.

8436. You were formerly vice-president of the Upper India Chamber of Commerce?—Yes.

8437. Do you represent their views here to-day?—As a matter of fact, I asked for their views, and I was rather delayed in the preparation of this outline of evidence until I heard from them two mails ago. They said they felt that it would be useless for them to send home instructions, and they preferred to leave it to a sub-committee composed of Sir Alexander McRobert and myself; and Sir Alexander and I did meet and discuss the matter, and in so far as our evidence goes forward I suppose it may be taken as the evidence of the Upper India Chamber.

8438. The memorandum which you have handed to us is the result of that conference?—It is the result of a conference between Sir Alexander and myself. Of course, the Upper India Chamber may not agree *in toto*, but, in so far as they have left the matter to us, I think they must take the responsibility of what we say.

8439. From that memorandum I gather that you make no serious criticism of the management of the balances in recent years?—Except in the years which I have mentioned, 1910, 1911 and 1912, making allowances for the difficulties under which these balances accrue.

8440. And even in those years does your criticism go further than this, that the India bills which were paid off in December 1912, might well have been paid off earlier?—I think that is the principal point. I do not know that I am prepared to raise any other point in connection with it.

8441. You think that the Government is a little over-cautious?—Apparently so in underestimating.

8442. I take it that that is the extent of your criticism?—Yes, that is the extent of it, and the underestimating is probably justified because of the extraordinary conditions which prevail in India.

8443. I turn to the question of banking facilities. You are, I understand, definitely opposed to the establishment of a Central Bank?—At present. I seek here to raise some of the obstacles to a Central Bank.

8444. May I take it that your opinion in the first instance is that there is no need for such an institution?—I do not think there is.

8445. I understand from your memorandum that in so far as work which we might call general banking work is done by Government you think it is very well done?—Very well done.

8446. And would not be better done by a Central Bank?—I do not think so.

8447. On the other hand, I understand you to feel, and to feel strongly, that one central institution could not have sufficient detailed knowledge of the circumstances in different parts of India?—I think not.

8448. Take the Presidency Banks: they themselves cover a very large area, do they not?—Yes, they do.

8449. The Bank of Bengal, for instance?—Yes, the Punjab, the United Provinces and Bengal.

8450. Does Burma come within its sphere?—Yes.

8451. Within their sphere, therefore, are there not circumstances as diverse and as widely distinguished as between Bengal itself and any other part of India?—Not to the same extent that you would find throughout the whole of India.

8452. You think, therefore, that though it may be possible for one board efficiently to direct the Bank of Bengal, with that sphere of influence, it would be impossible for one board to direct a Central Bank for the whole of India?—I do not say it would be impossible, but I do not think the results would be so good.

8453. You do not think the results would be as good as having the three separate institutions?—I think not.

8454. You state in your memorandum that "it is a "hopeful sign to see money in the country flowing freely "to the banks for investment" (paragraph 11, page 613). Does that refer to the growth in the deposits of which you speak?—Yes.

8455. Do you think that the banks in recent years have tapped new sources of supply for their deposits?—I think more people are getting in touch with banking.

8456. Are new classes being induced to confide their savings to the banks?—You see a good many banks now are opening out what you might call sub-agencies at small and unimportant places, and there is money coming in there.

8457. Where those sub-agencies are opened can you say from your own knowledge whether the business which they do is mostly to receive deposits or to lend money out?—There may be some branches which are receiving deposits, and others may be purely lending.

8458. I think one banking witness who came before us said that in his experience, when you opened a branch the business that came was always a demand for loans, and not an offer of deposits?—That is very often why a bank opens a branch—to get its money invested and to get it put out.

8459. You cannot say very definitely whether the banks are reaching new classes of depositors now?—I think that there are people who did not deposit before but who are coming now and making small deposits.

8460. In this connection, you call our attention in your memorandum to the danger to banking in India of the growth of what I think you describe as mushroom banks, which have nothing of the bank about them except the name?—That is all.

8461. You feel, I suppose, that it would be a great shock to all banks in India if those institutions under the name of banks came to grief?—Undoubtedly.

8462. It would tend to put back the growing trust of the people in banks?—Yes, especially people who are not very well versed in these things. It would be sufficient for them to say that the bank had *bigar gaya* (failed).

8463. I think the attention of the Indian Government has been called to the matter?—Yes.

8464. And you say that legislation is assured?—It is practically promised.

8465. May I ask you whether you think that your view as to the absence of any necessity for a central bank is generally shared among commercial classes in India?—So far as we are concerned in the United Provinces, we are very well content with the present facilities, and I should doubt very much if Bengal would care for a central bank. At present their rate is often, generally speaking, one per cent. less than the Bank of Bombay, which again is very often one per cent. less than Madras, so that it would mean that the benefits which Bengal has now would have to be spread over the whole of India.

8466. As far as you are aware, there is no general demand for the creation of such an institution?—I think not.

8467. And you think there is no general dissatisfaction with the present banking facilities?—No, I think certainly not.

8468. I think you observe in your memorandum that, though there is some stringency at the busy period of the year, you do not think that there is any good ground for complaint as to the rate at which money can be borrowed in India?—No, on the whole I think not, if you take the whole year round.

8469. On the other hand, in dealing with the busy season do you favour the idea that Government should give some assistance to the money market at that time?—I set that out in my note (*see* page 614, paragraph 17).

8470. I would like to ask you in the first instance: Supposing it were agreed that Government might lend, to whom do you think they should make their loans?—To banks; I should confine it to banks.

8471. Would you confine it to the Presidency Banks or would you go beyond them?—I would go beyond Presidency Banks. There are banks, such as my own, which are in a position to give very good security if required.

8472. I understand that you would not propose to lend to any bank except on security?—No, except on security.

8473. Would you lend on commercial paper at all?—No, I think it would be better to confine it to Government securities and Corporation and Port Trust Bonds.

8474. Would you go outside banks? Would you make loans to houses of high standing, or would you think it wiser for the Government to confine itself to banks?—The Government apparently are very much opposed to the idea. Suppose they made a start with banks they might find that it would go further, but I suggest in the first instance it should be given to banks.

8475. Of course, the Presidency Banks occupy a position by themselves?—Yes.

8476. The moment you go outside the Presidency Banks, might it not be very difficult for the Government to distinguish between those banks to whom it would be proper for them to lend and those to whom it would be undesirable that they should lend?—If they have got security and a good margin I do not see that the Government would stand very much risk. Their advances to the Presidency Banks and the Exchange Banks and the better class Joint Stock Banks would be perfectly safe. There might be an element of risk in the smaller Joint Stock Banks, but if they are adequately covered with a good margin——

8477. Of course, it is very important that the Government should have security for its loans, but it might be very inconvenient for them if they had to have recourse to their security?—It would, but with the banks which I have in mind, those which I have mentioned now, the Presidency, the Exchange, and better class Joint Stock Banks, I do not think they would go beyond their depth.

8478. Where would you invite the Government to draw the line between those which you call the better Joint Stock Banks and those which are not of the better class?—I do not see any risk of the borrowers defaulting at all if the Government have a good margin of security, because the smaller Joint Stock Banks could certainly not want very large sums, but the Presidency and Exchange and Joint Stock Banks with offices in Calcutta would, I should think, be perfectly safe.

8479. Suppose the Government of India decided, or the Commission recommended, if you like, that such assistance should be given by Government, but that in their opinion it would be well in the first instance not to go beyond the Presidency Banks, what would you say?—Then I think you would have the other Joint Stock Banks up in arms.

8480. That is what I wanted to put to you as a banker. If the Government were recommended to go no further than the Presidency Banks, do you think that would be considered so invidious a distinction that it would be better for the Government not to touch the position at all?—No; I should certainly say let the Government touch it, because even if only the Presidency Banks get it it reacts upon the other banks; that is to say, we would feel the benefit; the more the Presidency Banks have got to play with the easier would be the rate, so that certainly something would be gained by giving it even to Presidency Banks.

8481. So that though you would strongly urge that the better class Joint Stock Banks should be included in the list of approved borrowers, you would prefer that money should be lent in the busy season to Presidency Banks alone rather than that it should not be lent at all?—Undoubtedly.

8482. Let me ask you now what amount of money would the Government need to lend in order to affect the bank rate in the busy season?—It is very difficult indeed to hazard a figure.

8483. The object of your proposal that they should lend is to keep down the bank rate?—Exactly; and the knowledge that it is there, and is available, would have that tendency.

8484. But could you not give me any idea of what sum you think would probably be sufficient, in the early years at any rate?—I would not care to commit myself to that, because even in smaller estimates, for instance, when Government ask us in Cawnpore how much coin we should require, it is almost impossible to keep to that. You can never tell what India is going to do, and we may be absolutely wide of the mark.

8485. Do you think it might be a considerable amount?—Yes, I think it would be a considerable amount.

8486. Five crores or ten crores?—Ten crores would probably be nearer.

8487. You anticipate in that way that the rate, instead of going to 8 per cent., would be kept at 6 per cent.?—I think it would.

8488. Supposing that were done, and the bank rate did not go above 6 per cent., how far would the effect of that percolate down?—So far as regards borrowers who are borrowing on the basis of bank rate, either a fraction above or, as I believe some of the Presidency Banks do, a fraction below, they would score tremendously.

8489. They would be the big men?—They would be the big men, but as the other Joint Stock Banks also regulate their seasonal advances on the basis of the bank rate, it would also assist trade generally.

8490. Would it get to the cultivator? I do not mean to say would he have his money at 6 per cent., but would he have a corresponding reduction in the rate which he pays?—I doubt it very much.

8491. You do not think there is much connection between the rate he pays and the bank rate?—No, for the simple reason that he does not understand the sliding scale. The small man borrows on a fixed rate, and he is probably paying his 8 per cent. or 9 per cent., and he would not understand a sliding scale, a fluctuating rate.

8492. He might be borrowing at more than that, I suppose?—He might be, but from banks he is probably borrowing at 9 per cent.; some banks may probably be charging 12 per cent., but that is at small places.

8493. I understand one of the reasons suggested, or the main reason suggested, by those who desired the Government to give assistance in the busy season was that under present conditions, the rate being so high, the cultivators and the smaller people were obliged to sell their produce at once, regardless of the position of the market, and it was suggested that if they could borrow rather more cheaply against their produce they might hold it and get a better price?—To a great extent that is true, because if you are going to take bank rates of 8 or 9 per cent., then people who are borrowing at fixed rates, that is, the small borrowers, must expect, if the bank rate is still in the region of 9 per cent., to pay somewhere about that, and probably more, but if you can keep your bank rate down to 6 or 7 per cent., naturally rates will fall all round.

8494. In recent years has the bank rate ever gone as high as 9 per cent.?—I think not, speaking from memory. I think 8 per cent. is about the highest in the last two or three years.

8495. Seven or 8 per cent. are the normal figures?—They are the normal figures.

8496. On balance, I understand, you do not think that very much advantage would reach the cultivator?—It all depends, of course. If there is competition in the place where the cultivator is borrowing, the advantage would reach him.

8497. It will really be a question of supply and demand?—But he is in supreme ignorance of what is going on, and the only question would be that the bank would be very glad to lend it at 8 per cent. where they formerly lent it at 9 per cent.

8498. On the other hand, if he is in this unhappy state of ignorance he may be very well content to borrow at 9 per cent., even though the bank could afford to lend at 8 per cent.?—Quite so.

8499. I want to put to you one objection which has been suggested to us against the idea of the Government making loans of this kind. Supposing the Government had done it for four or five years out of surplus moneys that it had at its disposal—I may take it that you only suggest that they should do it when they have surplus money?—Yes, exactly.

8500. Suppose that on those four or five years in which they had done it there followed a lean year in which they had no surplus money?—But I am not referring so much to the advances from the balances, which are a very fluctuating item; I am thinking more of what they have in the Currency Reserve.

8501. You think the loans should be made from the Currency Reserve?—I think so in the first place, because the balances are very fluctuating.

8502. That brings me to the Currency Reserve. I think you say in your memorandum that you think the fiduciary issue might be increased (page 617, paragraph 32). Is it your view—I think it is—that instead of being a fixed sum it should be a proportion of the total?—Yes, that is my view.

8503. What proportion do you suggest?—I suggest one-third of the gross average circulation.

8504. Will you tell me why you choose the figure of one-third?—It is a limit within which it seems perfectly reasonable and expedient that the Government could work.

8505. You take it as a point well within the limit of safety?—Yes, I think so.

8506. But do you infer that that point is a perfectly secure one from the course of the note issue in past years, or from experience of other countries, or in what way do you infer it?—It is based more on the Indian note issue.

8507. Then your suggestion would be, as I understand, that the fiduciary proportion being increased a proportion of that increase should not be permanently invested but should be held available to be loaned out in the busy season?—That is so.

8508. Returning to the banks for a moment; you do not advocate any change in the legal conditions under which they now work?—No.

8509. You do not think it necessary that they should have access to the London Money Market?—No, I do not think there is any occasion for that now. As regards their present limitations, they can pretty well drive a carriage and pair through them now.

8510. You say that some years ago they sought access to the London Money Market, but opinion generally was against them on that point?—Yes.

8511. Do you think that public opinion remains the same to-day?—I think it would.

8512. Following your memorandum I come to the section which deals with capital expenditure (page 615, paragraph 20). Would you think it an advantage to raise as much as possible of the capital required for Indian development in India?—As far as possible, yes.

8513. Do you think that more could be raised than has been done?—I think so.

8514. But I gather you think not much more?—Not much more. I have not exactly the figures beside me, but I fancy a very big loan would not go well in India if that loan were in addition to the ordinary annual loan of two to three crores which is made. I fancy if the Government asked for a very big loan of five to six million pounds it would not get all that.

8515. What do you think they could safely do—take another one or two crores?—I suggest here four million, that is roughly six crores.

8516. Four million pounds a year?—No, I say here "occasionally." I do not think the market could take it every year.

8517. In that case it would be very little more than has been done of late, would it not?—No, you are borrowing about two million pounds annually.

8518. Four million pounds occasionally would not come to much more than two million pounds annually, would it?—No, but that is in addition to the ordinary borrowing. If you are having the two million pounds annual loan, I think an occasional loan of four million pounds might be tried.

8519. Can you, from your banking experience, tell me where these loans are held? I suppose they are taken mainly in the first instance by the banks?—Yes, the banks, business houses, and native states.

8520. Are they beginning to be held by natives to any great extent?—Not as much as they might. Mr. Gillan is probably aware of certain correspondence which we have had with the Government about difficulties in endorsement. The native mind cannot understand it all. They are very exact in Government offices where the funds are administered, the Bank of Bengal and elsewhere, as to the chain of endorsement,

and that very often raises objections on the part of illiterate people. They often have difficulty in trying to get these endorsements put right.

8521. Will you explain to us exactly what you mean by that phrase "the chain of endorsement"?—There are cages on the back of the paper. The paper might originally have been taken by the Bank of Bengal, and it is paid over to a lady, Mussamat Debi, and Mussamat Debi proceeds to sign here, and they say that the signature is not right—she is illiterate, or something of the sort. Even if she can sign there is probably something wrong; they want it letter for letter; or the paper has not been presented to the Public Debt Office for several years, and it has got to be.

8522. I understand that the certificate passes from hand to hand?—It passes from hand to hand by delivery.

8523. And does not require to come back to the issuing bank or the managing bank at each transfer?—No.

8524. If these difficulties could be diminished do you think that there would be a much larger market among natives for Indian securities?—I think it would help considerably. Sir James Meston, when Financial Secretary, did a good deal to remove these difficulties, but they are really very perplexing difficulties, even as regards joint stock companies and railways, because Government notes are given to railways as securities for tenders; they may be paid to the Central India Railway and then the Central India Railway may hand that paper on to someone, and finally when it comes to the Public Debt Office for renewal they say "So-and-"so's signature is not in order; the agent of the rail-"way is not authorised." It is the same way with banks and joint stock companies, not so much in the case of banks, but the Chamber which I represent took up several cases I know where Government disputed the right of an attorney to sign.

8525. I think you say there has been correspondence between your Chamber or Bank and the Government of India on the subject?—Yes, these were brought to the notice of Sir James Meston and he gave orders to have the things considered.

8526. As regards the exchange, I understand you to hold quite definitely the view that the fixing of the rupee at 1*s.* 4*d.* has been of benefit to India generally?—I think there can be no doubt about it.

8527. In your opinion the most important task in relation to this matter of the Government of India is to maintain the exchange at that figure?—That is so.

8528. You have been unable to form anything like exact views as to what has happened to the large quantity of gold which has gone into India in recent years?—Beyond that a good deal has been melted down and it has gone into ornaments.

8529. I think you suggest in your memorandum that a good deal of it is melted down for trade purposes?—For jewellers' purposes, yes. Mr. Gillan suggests that, and I think I can bear him out from my experience.

8530. You say that the circulation is increasing, but the increase is more marked in the Punjab than elsewhere?—Yes.

8531. The increased circulation of gold is very local in India, is it not?—It is distinctly localised, I should say.

8532. There are particular districts where gold is desired and others where it is not needed or not required by the public?—That is so.

8533. What do you think is the business of Government in relation to the currency?—To give the people what they want.

8534. But in so far as they can favour one kind of currency rather than another, which kind would you prefer to see in circulation?—Of course, token coin is the cheaper from the Government point of view in circulation, but there is one thing to be remembered, that as regards such as is taken off for saving, it is certainly much better that the poor man should save in gold than in silver.

8535. If he melts it down?—If he melts it down.

8536. Does that apply if he keeps it as coined rupees?—It is all the same if he has still got it in sovereigns, or has got it in the form of ornaments, so long as he has the gold.

8537. But have sovereigns any advantage over rupees, except that they are less bulky if the rupees were kept in the form of rupees?—I do not quite follow.

8538. I quite understand that if the poor man melts down rupees, which are a token coin, and then in time of stress brings back the bullion he would get a less sum than he had put away?—Exactly.

8539. But if he keeps it in the form of rupees he will get back the same sum?—Yes, he will get back the same sum if he keeps his savings in rupees, exactly.

8540. When he melts it down for jewellery, of course he loses if he melts rupees and does not lose if he melts gold?—Quite so.

8541. Now I go back to my question: Suppose you were an autocrat administering the Government of India and you saw that you could encourage the circulation of gold at the expense of rupees or notes, or the circulation of notes in preference to gold, what course would you take?—If I wanted to make money for the Government I should try to give them as many rupees as possible. If I wanted rightly to administer in the interests of the people of India I should try to give them as much gold as possible.

8542. It is the second supposition that I wanted to go on. Why in the interests of India would you give them as much gold as possible?—Because the man who has the gold there—the man who has saved the gold—has got it whenever he likes.

8543. Is not that true if he has got it in notes?—If he has got it in notes, yes, but I do not think he would keep it in notes.

8544. As long as the Government is solvent?—Exactly.

8545. Is it not true if he has got in rupees?—It is true if he has it in rupees, certainly.

8546. Is it not a fact that in that respect gold is only better than silver if the gold and the silver are both melted?—Yes, if the gold and the silver are both melted.

8547. Have you any other reason for thinking that it is in the general interests of the people of India to encourage the circulation of gold?—It is a much easier coin from the point of view of the small man. He can keep one sovereign much more easily than 15 rupees. If you take it for purposes of remittance it is more easily transported.

8548. In both those respects notes would be as advantageous as, or more advantageous than, gold?—They would be if you could get the people to keep notes.

8549. When you come to think it out, would there be any objection from the point of view of the people of India to encouraging the use of notes rather than gold?—I do not see that it is really the duty of the Government to force them one way or the other. If they can have notes or rupees or gold, let them take what they want.

8550. I quite see that if a person has a clear idea of what he wants it would be desirable that the Government should give it to him, but when he is indifferent ought the Government also to be indifferent, or ought it then to tender him one rather than the other?—I do not quite follow that.

8551. If the payee is indifferent as to whether he receives notes or gold ought the Government to be indifferent too, and ought the Government cashier to wait until he has made up his mind which he will have, or should the Government cashier, he being indifferent, give him the one or the other?—Give him the one or the other.

8552. But which?—Offer him notes or offer him silver. If you offer him notes he can immediately say "I want rupees for them" or "I want gold for them." It is only a question of reconverting it.

8553. If, therefore, you were in that position and the man were indifferent, you would give notes rather than gold?—I would give him notes rather than gold.

8554. Of the gold which is given out a certain part remains in circulation, or may come back into circulation, but a great deal disappears from the realm of currency altogether?—Yes.

8555. You said just now that it was most important in your opinion that the fixity of exchange should be maintained. Do you think that gold which is put into circulation is of much use for maintaining exchange in a crisis?—I doubt it.

8556. You do not think that it is probable that much of it would come out in a crisis to support exchange?—I should think not.

8557. If that is so, is there not a real reason in the interests of the people of India, and not merely a money-making reason, why the Government of India should discourage the circulation of gold, and increase the circulation of notes or rupees?—No, the Government can have their own reserves of gold, and centralise their reserves.

8558. How do they get those reserves? Are not those reserves dependent on the amount of notes, and the amount of rupees which they put into circulation?—Yes, that is so.

8559. If for notes or rupees you substitute gold in circulation, you automatically stop the accumulations of the reserve of gold?—The reserve of gold must suffer in consequence if you are forcing gold out, but I am not arguing that.

8560. I think you put it to me that the Government should remain neutral in this manner?—Yes.

8561. I am suggesting to you that in the interests, not alone of the Government, but of the people of India, the maintenance of exchange being their first interest in your opinion, the Government should not be neutral, but that it should encourage the circulation of notes wherever it can, rather than the circulation of gold?—Yes.

8562. You see, perhaps, the line of argument indicated in my questions?—Yes, I see it.

8563. On the whole do you agree with me, or do you differ?—I should say that the balance lies in favour of developing the note circulation.

8564. And keeping gold in reserve rather than putting it into circulation?—Exactly. I am not urging that the Government should force gold, but that it should be optional, and if a man expresses a preference for gold the Government should endeavour to meet it.

8565. In the light of those considerations, what is your reason for favouring the opening of a gold mint?—The reasons are very fully stated by the Government of India, and on the whole I think I agree with them.

8566. Will you just give them to me?—The main thing was, of course, that there might be gold which is absorbed now, or is hidden now, but that might be converted. One never knows when that occasion might arise. It would be there for that purpose; and there are times when it might be more expedient to import bullion and have it coined in India.

8567. What would those times be? What are the conditions which you contemplate as existing to make it more expedient for the Government of India to import bullion and coin it in their own Mint than to take sovereigns from London or Australia?—From Australia?

8568. From wherever they can get sovereigns cheapest?—I do not know that I could suggest the conditions at the moment, but they might arise.

8569. Put the case of some crisis forcing gold—bullion—out of hoards or out of savings: I suppose what you have in your mind is a famine which brings pressure on the individual and forces him to bring out his savings to live upon?—Yes.

8570. That would be a small man with a small amount of bullion, I suppose?—Yes.

8571. The total might be large, but in each individual case it would be small?—Yes.

8572. An individual could not go direct to the Mint to get his own little store coined; he would sell it as bullion?—Yes.

8573. And it might pass perhaps through two or three hands before it reached the Mint?—Yes.

8574. Do you think, under those circumstances, there would be any real advantage to anybody in being able to take that bullion to a Mint in Bombay, rather than in sending it home to be coined?—There probably would be a balance of advantage in getting it done there instead of sending it home to be coined.

8575. Where would the sovereigns be wanted when they had been got? The individual who had brought out his little hoard would want rupees, would he not?—The sovereigns would remain with the Government.

8576. When the bullion had been taken to the Mint and coined into sovereigns, what do you suppose the man who got the sovereigns would do with them; take them to the Government I think you said just now?—Yes.

8577. They would get into the Government Treasuries?—Yes.

8578. And from the Government Treasuries what would be the next step? Would they stop there until they were wanted for the support of exchange?—Yes, until they were wanted for the support of exchange.

8579. And when they were wanted for the support of exchange where would they be wanted?—They would have to go to London.

8580. Would it not be just as well if the bullion had gone there at once instead of passing through Bombay?—Yes.

8581. Do you think there is any real advantage in the opening of a Mint to gold in Bombay?—I do not say that it is going to do everything, but there is an element in its favour.

8582. Rather of sentiment, perhaps, than of very concrete advantage?—There is a good deal of sentiment in it, yes. I say that "on the whole" I favour it.

8583. As regards the gold reserve, I think your view is that no limit should be put to its growth at present?—No.

8584. You also hold that the amount of actual gold in it is insufficient at the present time?—Yes.

8585. And the proportion is too low?—Yes.

8586. You do not desire to fix any definite limit to the gold portion of it any more than to the whole, do you?—I suggest that the reserve should be held half in gold or rupees, the bulk to be held in London in gold only, while gold or rupees may be held in the Indian branch as circumstances warrant.

8587. Excepting that the actual gold should be half of the whole you would not care to put any limit?—No.

8588. I notice also that in connexion with the Paper Currency Reserve you say that in your opinion if the note issue were handed over to a Central Bank it would not command the same confidence as the present Government issue?—I do not think it would.

8589. Does your experience of India lead you to think that the people attach great importance to the Government guarantee behind the notes?—Undoubtedly.

8590. And no institution even of a semi-state character not absolutely under the control of the Government would, in your opinion, carry the same weight?—I do not think it would be as good as the direct connexion of the Government now.

8591. In regard to the financial organisation and procedure of the India Office, you suggest that the practice of lending to certain approved banks has a tendency to single out and hall-mark those banks, and you ask whether it would not be possible to widen the range of competition even if it led to rather less interest being received. Are you speaking there from personal knowledge of the institutions in London, or are you rather influenced by your Indian experience?—Well, the same agument would apply in India. It is a case of "a fair field and no favour."

8592. Do you think that the loans to certain banks in London have been of such consequence, having regard to the position of the banks, as to hall-mark them as you say?—No, I think the biggest deposit is under two millions, but I believe there are a good many banks in London who would like to get hold of those deposits, and some in the City feel very sore about it.

8593. What exactly is your second suggestion as regards deposits and short loans?—If the money is available why should not the Secretary of State notify that he has so much to lend and receive tenders for it, just the same as he does when he is selling his bills, "I have so much to sell in India." That is all it is, because it seems to be a very costly arrangement at present.

8594. You put it forward, not on the ground that the present system leads to the favouring of special firms, but rather that it would be much more economical if it were done in that way?—It would draw a bigger field of borrowers.

8595. Are you aware that the emoluments of the Government broker have been revised since the days when such large sums were paid?—No, I did not know that.

8596. Of course, you are aware that the balances were very abnormal, and that led to abnormal fees?—Exactly.

8597. (*Lord Faber.*) I want to ask very few questions, and perhaps more on banking than anything else. I gather from you that in your opinion if a bank fails in India the banking community generally is hurt by the want of confidence brought about by the failure?—I refer more to the effect it would have on depositors.

8598. They would be timid?—They would.

8599. They would not care to deposit with banks in the same way as they had done before the failure?—Quite so.

8600. Therefore, you will most likely think that if we could prevent a failure it would be right to do so?—Yes.

8601. What should you think of Government inspection of all banks?—I do not think any good bank has any reason to be afraid of that.

8602. As regards the price of money, do you agree that in all comparatively new countries as regards banking and commerce higher rates are usually exacted?—Yes.

8603. With regard to the endorsement of securities, do I understand that those endorsements refer to the endorsement of Government paper?—Yes.

8604. Tell me exactly what Government paper is?—It is Government promissory notes. The Government of India promises to pay So-and-so, and then there are cages on the back for endorsement.

8605. Why is it so necessary to have the endorsement on the back? Is it so that they may have recourse against the holder in a case of failure? It cannot be that, because it is Government paper and, therefore, endorsement is no good as regards Government paper unless it is to point to a theft of the paper?—Yes, of course, it is payable to So-and-so or order; the paper is not bearer paper.

8606. Just so, but when you have the first holder and he endorses it and does not endorse it on to the next holder, you only want the endorsement of the first holder of Government paper, do you not? We will say it is payable, if you please, to Mr. Smith, who is the holder of Government paper to the extent of 1,000*l.* Mr. Smith endorses it, and he then hands it to Mr. Robinson. It is not necessary for Mr. Robinson to endorse it unless it is endorsed over by Mr. Smith to Mr. Robinson?—Yes, but I think the practice is that it has got to be endorsed over.

8607. Is it obligatory to endorse it over?—It is payable to "or order" in the first case.

8608. I know?—I see. The point is whether you can cut out the endorsement by Robinson.

8609. Unless it is endorsed on, obviously; that is the English practice, as you know?—Yes.

8610. Therefore, it seems to me that the endorsement need not cause any bother at all unless it is endorsed on to somebody else?—Of course, the only difficulty would be if the paper remained in my name.

8611. And you have endorsed it, but not endorsed it on?—You mean I have not endorsed it on; I have simply signed my name and sold it to you; you would not endorse it.

8612. No, I should not. Why should I?—How are you going to get the interest unless I sign the interest warrant for you?

8613. I understand now; there are coupons upon it, are there?—No, there are little cages. I was explaining that. On the back of the paper one reads "interest for the half-year ending" so-and-so; "interest for the half-year ending" so-and-so; "interest for the half-year ending" so-and-so; and the cages here are independent of these; these cages are for endorsement.

8614. I understand now, which I did not before. That is a kind of paper with which, of course, we are not familiar in this country. I should say that there are coupons attached; the coupons are on the back, but it is the same thing, except that they must go with the original note in this case?—It is not a coupon.

8615. You cannot cut off the coupon?—It is part of the paper; it is printed on it; but, of course, the Government now have been asking whether it would be possible to issue Government paper payable to bearer. They have taken opinion in India now whether it would be possible to have it in the form of stock, the present notes, and paper payable to bearer.

8616. It would be quite possible to do that, because there is plenty of it to be found in London—not on the Indian Government, but other loans?—I do not know that it has reached further than the stage of enquiry.

8617. As regards the bank reserve, if you had to choose in what form your bank reserve should be, how should you take it, gold or rupees?—Are you referring to Indian banks?

8618. Yes, or any bank?—The cash reserves.

8619. Yes?—I should keep them in any form.

8620. You would as soon keep them in rupees as in gold?—No, I would sooner keep them in notes. They are handier for us.

8621. I suppose you would rather keep them in gold than in rupees?—Not necessarily. We have to believe that the Government of India is all right.

8622. Still I come back to the old question that the gold, from my point of view as a banker, is pleasanter to hold, because it is intrinsically worth more, as you have observed, than the rupee when melted down?—Quite so.

8623. And gold is world's money?—Yes, exactly.

8624. (*Sir Ernest Cable.*) You speak in your memorandum only of the difficulties of a State Bank (*see* pp. 613–5). Do any advantages occur to you?—I have read the memorandum prepared by Mr. Abrahams, and I am afraid I do not see any advantages now unless there are other advantages which have not been disclosed there.

8625. You were talking about the mushroom banks. Can you tell me where those mushroom banks operate?—All over the country.

8626. Do you not think that a State Bank might supply the place of, and tend to abolish, these mushroom banks?—No, I do not think so, for this reason, that if you had a big State Bank you would not get the deposits out in the same way. There is money in the country to come to good banks, but what we want is the Government to see that those banks are kept in leading-strings for a good long time to come. They will get money which the State Bank or the Presidency Banks would not get, because the Presidency Banks cannot afford to pay the rates, or they do not pay the rates, that the smaller Joint Stock Banks would pay.

8627. You think the depositors throughout the country demand higher interest?—They want a bigger rate. I am not aware what Sir James Begbie, or the Bank of Bombay, pays on deposits, but I believe it is about 3 per cent.

8628. (*Sir James Begbie.*) It is 3 per cent.?—If you can get another Joint Stock Bank which is willing to pay 4½ per cent., and if that bank is properly regulated by Government, you will get money to come to that bank. The bank has a certain duty to perform, and at 3 per cent. they are not just exactly inviting all the money in the country to come to them. It is

the same way at home here; so much money has had to go elsewhere.

8629. (*Sir Ernest Cable.*) In reply to the Chairman you mentioned that it would be an advantage for the use of currency notes to be increased?—Yes.

8630. Do you not think that could be better brought about by a State Bank than by Government?—If there is one thing that the Government have done well, they have managed their currency well.

8631. Nobody denies that, but the question is whether a State Bank would not be able to push it more successfully?—No, I do not think so.

8632. (*Mr. Gladstone.*) Let me ask one or two questions as to the nature of the security to be deposited with Government against Government loans. You have referred to the trouble and risks in regard to Government paper passing by endorsement?—Yes.

8633. Do you not think that an issue of short term bearer bonds, known in this country as floaters, will get rid of this difficulty and form a very convienient security?—As a matter of fact, that is the view I took when the Government asked opinion upon that matter.

8634. The creation of such securities by Government from time to time in moderate amounts might be done without inconvenience?—I think it could.

8635. And if the amount repayable at any one time was strictly limited there could not be much objection from the Government point of view?—I do not quite follow the question.

8636. If the amount repayable by the Government at any one time on short term bonds—because they would have to be short term bonds?—Yes.

8637. It would form a good banker's security, and it might attract money not now invested in Government loans?—Yes.

8638. It would be a safe security for Government to hold against any loans they might make, reducing to a minimum any risk that they have to carry, or any adverse effect on Government loans in general should it ever prove necessary to realise such security?—I think that is quite true.

8639. (*Mr. Keynes.*) You said in reply to a question that the bank rate sometimes differs in different Presidencies?—Yes.

8640. I suppose that is because money does not flow very readily from one part of India to another?—No, that is so.

8641. Do you hold that that is an advantage?—That it should not flow?

8642. Yes?—It is probably a disadvantage.

8643. I think you called attention to these different rates as showing that there was no need for a Central Bank. I suggest to you it rather shows the opposite?—No, I mentioned that as showing that the conditions in each of these Presidencies are entirely different, that the rates, among other things, are different. I think if you read my note you will see I say that each has "a distinctiveness of its own, and the rate in each is often different" (*see* page 613, paragraph 8).

8644. And the rate is different because money cannot readily flow from one to another?—That probably is so, yes.

8645. If there were a Central Bank which directed the flow of currency to the different Presidencies according to how much was wanted in each, there would be less difference between the bank rates than there is now?—Yes, but I do not know that the Central Bank could achieve that.

8646. If it attempted at all to do that it would be an advantage?—It would be a very good thing, but you have the other thing there; if the Government are going to lend money, as I suggest in this note here, out of their surplus, it would do the same thing.

8647. How do you mean? I do not follow?—If the Government are going to lend money out of their currency reserves and tide over the seasonal difficulties you will have brought the rate down.

8648. But does that affect the difference between the rates in the different places?—It would, because you would probably have Madras as the highest, and it would probably be borrowing more. If there is a difference, if it is 4, 5, and 6 in one place, and if it is tighter in Madras than it is in Bengal, then Madras will be wanting more from the Government, which would bring it down to 4.

8649. That is assuming that Madras would have as much security of the right kind as would be wanted for the loan?—Yes.

8650. You say that there are local differences to which the banks have adapted themselves. What are the local differences of which you are speaking?—The differences in trade and so on—financing different industries.

8651. Do you mean differences as to what trades and what individuals ought in different parts of the country to have credit?—I do not quite follow that question.

8652. The industries in the United Provinces are different from the industries in Burma?—Yes, quite so.

8653. So are the people?—Yes.

8654. But that you say does not cause any difficulty to the Bank of Bengal?—No.

8655. What are the sort of differences of which you are thinking which would cause the difficulty?—The differences in the nature of the business?

8656. Yes?—Bombay has entirely different business from Calcutta, for instance.

8657. But so has the United Provinces from Burma?—Yes.

8658. What is the difference which is relevant in the one case and not relevant in the other?—There are differences in trades, and so on, and different industries and exports.

8659. But the difference of industries is no interference as between Burma and the United Provinces, but is an interference as between Calcutta and Burma?—Yes, it might be.

8660. Why is that?—You are only enlarging the scale, are you not; you are only enlarging the area.

8661. Are not these differences of a kind which would inevitably be left wholly to a local board, and could not conceivably be the busines of a central board?—It might be arranged to leave them to the local board.

8662. Are there any differences which could not be left to the local boards?—No, probably not. It would all depend on what latitude was given to the local board.

8663. With regard to the mushroom banks, from what classes are they drawing their deposits, do you think?—From the artisan, the babu, the pleader and the cultivator.

8664. Is that a class which, apart from mushroom banks, does not bank at all?—I do not think they bank at all. Of course, the pleader, as an educated man, did bank previously, but they get better rates here, and they get a position of importance on the board, and so on.

8665. So to a certain extent you think the mushroom banks by their high rates attract money which previously was going to other banks?—No, not necessarily. Yes, to a certain extent to other banks, and they have probably tapped new sources altogether.

8666. How are these banks using their money?—I refer to them in the appendix to my memorandum (page 619, paragraph 6) as investing in all sorts of things, such as coach-building. They will take a part of their money and erect a soap factory, or a coach-building business for repairing carriages, and so on, and, of course, they finance a great deal in trade.

8667. Do they on the whole put their money into permanent investments, or do they keep it for what I may call real banking purposes?—I should think they rather tie it up. In fact, they become traders with the money which is given to them as bankers.

8668. What sort of rate do they commonly pay on deposits?—Five per cent., and for two years probably six per cent. It is five per cent. for one year and probably six per cent. for two years, and so on like that at varying rates.

8669. I think in answer to Sir Ernest Cable you said that the right solution was not to introduce a Central Bank but to have these banks under Government inspection?—To let them go on, and not to have them

under Government inspection but to legislate for them and to provide that they must do certain things: they must comply with certain conditions before they are floated, and after they are floated they must have a certain percentage of cash to their deposits, and so on, and they must have a certain percentage of capital to their deposits.

8670. If they were properly regulated could they afford, do you think, to pay these high rates of interest?—I see no reason why they should not. They are borrowing probably in districts which are not advanced, and if they borrow at 5 and lend at 9 per cent. they are getting a profit margin of 4 per cent.; and their expenses are very low; they have no European establishments.

8671. If there were different branches of the central bank in these more remote places, would they not also be able to afford to pay more than the 3 per cent. now paid by the branches of the Presidency Banks?—Then they would have to alter their present practice, because if the central bank is composed of the Presidency Banks a uniform rate obtains at all their branches, and they would only pay the same rate at all their branches.

8672. Is that a good plan, do you think?—No, I expect it would be a very good thing to let other institutions than a big institution open banks.

8673. Is it your opinion that a higher rate could well be paid in up-country districts than what could be paid in Presidency towns?—Do you mean a higher rate paid by borrowers?

8674. A higher rate paid to depositors?—Yes, there is a higher rate paid up-country than there is in the Presidency towns.

8675. And it might fairly be paid?—Yes.

8676. So that if Presidency Banks are thinking mainly of their Presidency town trade in charging a uniform rate which is suitable to them, that tends rather to hinder their development up country?—If they borrowed at one rate at all their branches and lent at a uniform rate?

8677. No, that was not my question. If the Presidency Banks are thinking chiefly of their Presidency town customers and charge a rate suitable to them and then impose that rate on their branches also, you think that hinders the development of their branches?—I have not quite followed the question.

8678. (*Mr. Gillan.*) What Mr. Keynes means, I think, is that they offer no more for deposits up country than they offer in the Presidency towns?—Is that your point?

8679. (*Mr. Keynes.*) Yes?—No, they do not offer any more, because if they offered more in Cawnpore, for instance, than they offered in Calcutta, people in Calcutta would send up to Cawnpore to reap the higher rate.

8680. But if the money could only be taken out at the branch at which it was deposited, would that be the case?—Quite. You could get currency notes and send them back again to Calcutta, and you could get your money back there, or you could go to the Currency Offices and get a transfer for one-sixteenth.

8681. Suppose that one of the more substantial of the joint stock banks were in difficulties, to whom would it look for assistance?—The Presidency Bank in the first place.

8682. Is there any important reserve in cash outside the Presidency Banks?—Do you mean banking reserves?

8683. Yes, banking reserves?—Do you mean have the other banks got important reserves?

8684. Have they reserves in cash, apart from their balances at the Presidency Banks?—You mean have these other banks balances in the Presidency Banks?

8685. No, have the other banks got reserves in cash apart from their balances at the Presidency Banks?—Yes.

8686. Important reserves?—Yes, considerable.

8687. I do not want anything precise, but when banks say that they have cash in hand and at the Presidency Bank amounting to so much, would you think they had as much cash in hand as they had at the Presidency Bank?—A great deal more. Take the case of my own bank. We bank our surplus money with the Bank of Bengal, and that is a mere bagatelle compared with what we have in our own safes. We could not possibly leave all the money lying with them.

8688. What is your published proportion?—It is, I think, shown only as "Cash in hand and at bankers."

8689. About how much is it—what proportion of the balance?—I could not tell you; I am not in the head office. Do you mean of the proportion of the bank's cash balance how much is kept at the Presidency Bank, and how much is in our safes?

8690. No, I did not mean to ask you that; I mean merely what proportion of the deposits, the cash in hand and the money at the Presidency Bank added together make?—I do not think I could tell you straight off just now.

8691. Have you not any approximate figure?

8692. (*Lord Faber.*) It is 20 to 25 per cent., is it not?—It varies in June and it varies in December. When the demand is greater the percentage is not so high. In June, of course, it is very large and the money is lying idle, but the figures have escaped my memory at the moment.

8693. (*Mr, Keynes.*) You suggested that perhaps a loan of ten crores would be wanted to keep the bank rate down?—I do not bind myself to that figure, you understand.

8694. No, but if you take that figure, do you think the Indian banks could put up security with a good margin to that amount?—The whole of the Indian banks?

8695. Yes?—Probably.

8696. Even if they were limited to Government Paper and a few other Port Trust securities, and so on?—Yes.

8697. You think they could?—I have not the figures now, and it is rather difficult. I cannot remember just exactly how much the Presidency and other banks hold in these securities. It is difficult; it has been off my mind for some time now.

8698. I do not quite understand the mechanism by which this money should be lent to banks. Are they to tender for it?—No, the probable course would be that they would write in and say to Government: "Could the Government give them so much money?"

8699. You say in your memorandum: "Any bank "depositing sufficient Government securities to be "accommodated; the loans not to exceed three months "and to carry interest at a rate to be fixed by Govern- "ment from time to time, but approximately five per "cent." (page 614, paragraph 17)?—Yes.

8700. Do you mean that the Government should notify that their rate at the moment is, say, 5 per cent. and then lend to any extent which is asked of them at that rate?—No, I take it the procedure would be that the bank would probably want ten lakhs and would write to ask the Government if they could get the money and on what terms; and the Comptroller would say on what terms he was prepared to lend. If the money were going out quicker than the Comptroller cared for, of course, he would have to put up his rate, but it would move more or less in sympathy with the bank rate.

8701. It would be within the discretion of some Government official to settle the rate as he saw the loans going in or coming out?—I think so. I think the Comptroller might fairly be trusted to do that.

8702. Doing very much what a bank does?—Yes, practically.

8703. You are proposing something which would be very far from rule of thumb and would involve some Government official's exercising a discretion of a kind usually exercised by banking officials?—Yes, to that extent it would. If the Government said that they were going to lend at 5 per cent. and found that the rate was going higher, I think the Comptroller would be quite justified in saying "we want 6 per cent. "now; you are getting a bigger profit margin and we "want to share it." I do not see that there is any objection to the Comptroller doing that.

8704. In the course of your memorandum you say that borrowers for all the year round would pay 6 per cent. We have had evidence that some borrowers

pay a good deal less than 6 per cent. I suppose they have been an exceptional class of borrowers?—Yes, very good borrowers. I know from my own experience as a matter of fact firms who do borrow at less than 6 per cent. from the Presidency Banks.

8705. But you say the ordinary man in a fair way of business would probably have to pay 6 per cent. for all the year round loans?—Yes, if he is a good borrower.

8706. What sort of security would he give against that?—He might have shares, or it might be stocks.

8707. Something of the kind which the Presidency Banks would not take?—Oh dear me, no: Presidency Banks advance on anything if they can get two names. They can drive a carriage and pair through their limitations. They can lend on landed property so long as they get two names and the deposit of the titles as security.

8708. We are told in evidence that the rule which prevents Presidency Banks from lending upon stocks and shares is an inconvenient one?—It is about the the one thing that they do not do, but if I wanted to borrow on stocks and shares all I have to do is to overdraw my account, and I have the stocks and shares and I come to you and say: "Will you sign this promissory note for the Bank and sign along with me?", and you get a small commission for doing it, and I get the money all right and they get the shares.

8709. They do actually take stocks and shares as collateral?—Yes.

8710. If they get the two names?—If they have the two names. They may put the shares in safe custody; I do not know; but I know cases where they have the shares.

8711. You think, therefore, that these restrictions under which they work are of no practical importance?—No, I think they can make such very wide use of them, but I do not suppose the Central State Bank would be allowed to do things of this sort. They could not possibly.

8712. Do you think the restrictions are of a wise kind and ought to be maintained?—The present restrictions?

8713. Yes?—As I say, they can make a pretty wide use of them, but they have come to no harm so far.

8714. Would it be a good thing or a bad thing if they were strictly enforced? You are suggesting that in the case of the Central Bank they would have to be strictly enforced?—It seems to me, according to the strict letter of the law, the Presidency Banks could make these advances so long as they got the two names.

8715. If it were to be strengthened up in some way so that they could not make loans on stocks and shares would that be a good thing?—I would not say so. Why should they be debarred from it if they have two names?

8716. Is there any reason why the Central Bank should be debarred from it?—The Central Bank, if it is going to be a Government Bank, I fancy would have to be kept much more tightly in hand.

8717. Why?—Because under the present conditions it is possible to borrow on houses and lands and everything else. So long as you get two names you can go to the Presidency Banks and get the loan.

8718. My point is this, that if the method followed by the Presidency Banks is perfectly safe there is no reason——?—It is perfectly safe so far.

8719. Do you think there is any element of danger?—There is always danger in banking; you are never free from it. It does not matter what you touch. It might be right to-day and bad next year.

8720. Indian banking has had a very prosperous time for ten years or more. In what position do you think they will find themselves to meet the next severe banking crisis?—It depends when the next severe banking crisis comes, and in what form.

8721. If there were to be some serious failures and at the same time a good deal of stringency?—Yes, a a good many would come down.

8722. Is it your opinion that the Presidency Banks are strong enough to support the whole fabric of Indian banking on an occasion of that kind?—I suppose I am at liberty to say. Am I to express opinions as to the solvency of Presidency Banks?

8723. I am not asking as to their solvency; I am asking as to their capacity to stand a strain in which they had to support not only their own liabilities but also a large part of other banking liabilities?—They might to a limited extent take on other banks and help other banks through, but of course we know that in one case they failed themselves, did they not?

8724. What is in my mind is this, that it may be the case that with the great growth of deposit banking during the past 10 or 12 years, and the growth of dependence on Presidency Banks, while they are very well able to look after themselves, they would not, perhaps, be able to support all the banking interests of the country?—But why the dependence on Presidency Banks? You said just now: With the growth of joint stock banks and their dependence on Presidency Banks.

8725. You told me earlier in your evidence that if they were to get into difficulties they would try to borrow from Presidency Banks?—Yes, that is assuming difficulties. They would naturally look first of all to the Presidency Banks.

8726. Ten years ago there were no banks, or possibly about half a dozen, who were in a position to get into difficulties. They did not exist?—Yes.

8727. But that is no longer the case?—No, there are a great many now,

8728. Does not that make the whole situation more complicated and serious?—It does, but the remedy is for the Government to lay down restrictions, and say, "You shall only conduct your business in this "manner." If the Government will only do that, you will get a form of banking which is going to do a lot of good. It will reach the places that Europeans do not go to, and you are going to get out the deposits. We want the Government to come forward and say: "You have to comply with certain restrictions," and I consider that these banks will fulfil a very useful *rôle*, provided they are put into leading strings.

8729. But even if they conduct their business quite moderately and on cautious lines, the mere growth of smaller banks necessarily having small reserves, complicates the banking position, does it not?—Yes, to this extent, that it exposes you to greater liability to failures.

8730. No one would expect a small bank to keep such a very large liquid reserve that they could get through a grave crisis unaided?—No.

8731. Not in India?—No.

8732. So that if these banks grow there will necessarily be a great growth of institutions which would be in need of some outside assistance at a grave crisis, and that is a new thing?—Yes, new to the extent that there are more of them, and of a less solid type than those which have gone before.

8733. Do you think that if the reserves of the three Presidency Banks were amalgated, and you had a stronger central institution, that might prove valuable at a time of crisis of this kind?—Why do you want to amalgamate them if they are there now? It makes no difference if you put the three into one.

8734. Is it not your experience as a banker that three reserves in one are of more value than if they are separate?—It would be bigger.

8735. Would it not be more valuable?—If you put three reserves together, there are always the corresponding three liabilities put together.

8736. But is it not your experience that if three banks amalgamate, from the point of view of their reserves they are stronger than if you have the three banks separate?—Yes, that is so.

8737. Would not that apply to the Presidency Banks?—If they were united.

8738. Yes?—Yes, but do you want to unite them for the sake of meeting this danger?

8739. It is one of the objects which I have in view. Do you think there is anything in it?—The reserves would be stronger if they were administered by one, undoubtedly.

8740. And that is an important and relevant consideration, because the banking position in India is

becoming more difficult than it used to be through the growth of smaller institutions?—Yes. I take it, however, in the event of difficulty, banks would repair to the Presidency Bank in their own sphere, so to speak; if they were in Bombay they would go to the Presidency Bank in Bombay or in Bengal to Calcutta, and they would be tided over in that way.

8741. (*Chairman.*) That is, provided that the Presidency Banks thought that the institution was one which ought to be helped?—Yes, undoubtedly.

8742. You would not assume, or wish other people to assume, that whenever one of these minor institutions got into distress the Presidency Bank would as a matter of course carry it over?—It could not do so. In the case of the Bank of Burma the other day, the Bank of Bengal refused to step in and help because it was not a genuine case.

8743. (*Mr. Keynes.*) So that if there is a crisis in one Presidency at present, only the funds in that Presidency are freely available?—They can be transferred.

8744. But there is difficulty in that?—No.

8745. We have had evidence that when there was trouble in Madras not many years ago Madras had to depend to a very great extent upon its own resources?—That may, of course, have been due to the fact that the treasuries down there were more or less empty at that particular time.

8746. Would not that kind of difficulty be avoided by a central institution which had an eye to the whole country?—No, in the case which you have just mentioned, Madras was probably empty, and the only way you could get over that was by sending down hard coin; is not that so?

8747. Quite so?—Even if you had a big Central Bank, and even now that Government have simplified matters considerably by giving big transfers from treasuries to other treasuries, there is still an enormous amount of money carted about the country actually in hard cash.

8748. It would be to the interest of the central institution to send cash to any branch which was in trouble, or to any part of the country where at the moment it was wanted?—Yes, it could still be done now.

8749. It is nobody's business to do it now?—I am afraid I do not understand you. Nobody is going to offer money to a small bank in difficulties until it asks for it, or unless it deserves it.

8750. I am suggesting that it is not the business of the Government or of the Bank of Bengal to remit surplus funds to Madras because the Bank of Madras is rather short of funds?—No, quite so.

8751. If they were all one central institution it would be their business?—It would be the business of the central institution. It would find that it was getting better rates in Madras probably if there was a shortage there, and it would send money down there. If it sent money down there it would send the rate up in Bengal or Bombay probably.

8752. That would be an advantage, would it not?—I do not think Bengal would accord you thanks for it, or Bombay either. If you send money away to one place where there is a bigger demand, it would simply tend to put up rates all round elsewhere.

8753. But from the point of view of the country as a whole it would be plainly an advantage, would it not?—I do not see that there is any enormous advantage if the difference is only one per cent.

8754. I did not imagine that case, I imagined the case of a real temporary difficulty. If there were a central institution it would be rather easier than it is now to relieve that temporary difficulty?—I do not think there is very much to be made out of that. It seems to me if the money is not in the Treasury at Madras to assist in a case of that sort, it would have to go in hard coin, and whether it is sent by the Calcutta bank or by individuals or an ordinary joint stock bank, is immaterial so long as it gets there.

8755. But at present if it is in Calcutta it is only available in that Presidency, it is not available in Madras?—They may have a transfer of it.

8756. But in order to get that transfer the Bank of Madras has to raise funds in Calcutta?—Yes.

8757. Which is plainly more difficult for it to do at a time of crisis than if the authority of Calcutta is also the authority of Bengal and Madras?—But do you not suppose if the Bank of Madras were pushed they could not send up to Bengal or Bombay and offer to borrow there and get the money sent down in some way?

8758. There is no doubt whatever; they do that now. But I am assuming this case, that while that would be done to a certain extent there is some difficulty in it?—There might be, but at the same time it is perfectly open if rates are very high in Madras for Madras to send to Bombay or Bengal to get the money sent down. I do not think the Central Bank would make it any easier.

8759. I do not think that is my point, but I will not pursue it. I have only one other point. If the notes preserve the same form and the same appearance and have the same guarantee, would the fact that they were managed by a Central Bank militate against them?—These are things that are very difficult to express. You have got to be in India to realise these things. Every little change means such a great deal.

8760 I am not expressing an opinion, I am asking a question?—Exactly, but I am really giving you the answer in a different way. It would, I think. Any change of that sort would be bound to affect the note circulation for many years.

8761. If the notes preserved the same appearance, and if the Government did not withdraw their guarantee, you think the fact that they are issued by a Central Bank would make people distrust them?—I think it would, the same as when the Government tried to push sovereigns into circulation they went to a discount. It was something new. When they tried to circulate sovereigns it was something new and people said "No, we will not have it."

8762. But there will be nothing new in the appearance of these notes or in the security. You think that the ordinary person who would be ignorant enough to be disturbed, would have knowledge enough about the existence of the central bank?—I think that the chance is that it would create a disturbance in circulation.

8763. You do seriously say that?—I think it would in so far as it would be novel. It is a thing that would be got over in time, there is no doubt. It was only a few years ago when the Government of India printed the Government promissory notes on different paper, and made it very dark blue, and there was all sorts of talk about that.

8764. You would not say that it was more than a temporary difficulty?—No, not more than a temporary difficulty, but there would be difficulty at first, I think. As I tell you, there was the same thing when the Government promissory notes were changed from white and red into mauve. The people wondered what it all meant.

8765. (*Sir Shapurji Broacha.*) Do you think the Presidency Banks are doing their business very efficiently within their spheres of influence?—I think they are.

8766. Money, of course, is very cheap from June onwards?—Yes.

8767. Supposing the Government were to lend some money during the busy season, I think the rates of interest would not rule so high?—No.

8768. The State Bank could not do anything better?—No.

8769. When the Government commences to lend the money?—Quite so.

8770. A State Bank would require State Directors?—Yes.

8771. It would be only making things cumbrous? I think it would.

8772. Instead of the State having one Department of Accounts, it would have to have two Departments of Accounts?—Yes.

8773. I suppose you know that wherever the Government have taken responsibility, the Government Directors have failed to carry it out? Do you know of that in the Bank of Bengal, and in the Bank of Bombay? I will tell you the history of it. The

Government made a rule not to lend more than one lakh to any person, and they lent a firm 23 lakhs without the Government Directors informing the Government, and the result was, when the Government asked for an explanation, they said it was a serious case, and they were not bound to bring it to the notice of the Government?—A serious case of necessity to make the advance, I suppose?

8774. Yes. So that the Government Directors on a State Bank are no assurance of the Bank going on according to the Statutes?—Apparently these Government Directors did not justify their position, but it does not follow that others would not.

8775. I think India is a very large country for one bank?—Exactly.

8776. For people sitting in Calcutta to regulate the credits of Bombay and other places?—Quite so.

8777. I think there is better accommodation, and a better way of negotiating with a bank, within the sphere of your influence, than by somebody sitting at the end of India?—Yes, you would get into more intimate touch with your banker.

8778. I suppose you know that all the exchange banks keep their balances free in the Presidency Banks at present?—In Bombay.

8779. Yes, they keep their free balances in Presidency Banks without interest?—Yes.

8780. I do not think they would do more with a state bank at present?—No.

8781. They would keep it in the same way?—Yes.

8782. The State Bank would be no advantage in the way of keeping balances over the way the Presidency Bank keeps them now?—Not any more than they are at present.

8783. Now about the endorsement of Government paper. Do you know that the Government have asked for opinions in what way to prepare paper, whether with coupons or whether they should do away with the endorsement or not? They have sent round a circular for the opinions of all Chambers of Commerce and all Stock Exchanges, and so on. Do you know that the Indian Government paper is more a banking security than Consols, even, in one respect, because the interest counts up to the day of sale; therefore you have to count in the interest in considering whether you are making a profit or loss, because interest goes up to the day of delivery?—Yes.

8784. That is not so in Consols, which are like shares; interest is payable on certain dates of the year, and the endorsement is a sort of security, something like a bill endorsed by different people?—To preserve the chain.

8785. And all the people are responsible for anything wrong with the endorsement with all their signatures above one another?—Yes.

8786. So, of course, in India, where the people are illiterate, it is a great safety to widows and other people. First let me ask you this. In India the signature of a widow or a woman ought to be witnessed by two witnesses and a Justice of the Peace?—Yes.

8787. That is the rule?—Yes.

8788. And that is their safety at present. Their husbands could not force their paper out of them, and their sons could not force their paper out of them, because the woman has to sign, or put her mark before two witnesses and one Justice of the Peace. Therefore it would be a very difficult thing for the husband or the son to get it from the woman?—Yes.

8789. I suppose you know that some of the Chambers of Commerce and other people have facilitated that by attaching coupons where the passing of the note must be by endorsement, and the Stock Exchange have given their opinion that the note ought to be prepared with the coupon for six months' interest attached, but passing the possession of the notes must be done by endorsement?—Yes.

8790. That would facilitate interest-taking?—Yes.

8791. You think that the currency office should give whatever is asked, gold or rupees or currency notes, against demand?—Yes, to the extent that they can give the gold.

8792. Then they stop giving gold?—If they have not got it. The Government do not undertake to give them gold, of course.

8793. Do you think it is necessary to undertake to give gold?—No, I do not think it is necessary.

8794. Do you know that in France they do not give gold when asked?—They will not, no; they can keep it back.

8795. Ought the Government to accustom the people to the refusal of payment in gold by currency offices? Otherwise when it is not given they will be alarmed?—I prefer the present arrangement from a banker's point of view. When the Government can give us gold they should give us gold. Of course, if they cannot we quite understand it.

8796. You know that the banks are unable to reach the cultivators of India because they are such a small people, but when the rate of interest is reduced the sentiment for money is easier: when the bank rate is eight or nine per cent. the sentiment becomes rather alarmed, and the people are rather more afraid to lend than they would be at five per cent.; is not that so?—Do you mean depositors?

8797. No, I mean when the bank rate is eight per cent. the middlemen who are lending outside are generally more alarmed than when the rate is four per cent.?—Yes.

8798. When the rate is easier the middlemen would be better able to afford to lend money to the cultivator than when the rate is high?—Yes.

8799. So the cultivator does benefit to that extent? He easily gets his money from the middleman?—Yes, I think there is a benefit in that respect.

8800. (*Sir James Begbie.*) I understood you to say that the bank rate of Bengal is usually 1 per cent. less than the Bombay rate?—Not always. I mentioned the case that it sometimes varied, but only sometimes.

8801. I think the usual position is that in the late autumn the Bombay rate is below the Bengal rate, and then in the spring the Bengal rate falls below the Bombay rate; is not that the usual thing?—That probably is about it, yes.

8802. With regard to the State Bank you say that the size of India is against the efficient working of a State Bank. Do you place much importance on that objection?—Not a tremendous amount, but I do think it is an objection.

8803. There are several banks which have a chain of branches all round the globe, and they are to all appearance efficiently working, are they not?—You refer to exchange banks, and so on?

8804. Exchange banks and foreign banks?—Yes.

8805. One question with regard to Council Bills. You approve, I think, of the existing Council Bill system, including, I suppose, sales in excess of sales to meet the home charges; that is in Part IV. of your memorandum?—Yes, I think that is what I stated (*see* page 615, paragraph 21).

8806. I understand from your note that you take the purely trade point of view that the bills provide money in India?—Yes.

8807. Do you think that is the only consideration which should be taken into account?—In selling in excess of the requirements of the Secretary of State?

8808. Yes?—It is one consideration.

8809. It is the only one you put, is it not?—I think it probably is.

8810. You go on to say that these sales "are "economical, inasmuch as they obviate the expense of "the actual export of gold from London, and its "subsequent re-export from India." Do you mean re-export from India for the purchase of silver?—Yes, or the replenishing of the Secretary of State's balances if he were not able to sell any more.

8811. In the case of purchase of silver, against any saving effected as you describe, would you not put the cost of shipping the silver?—Yes.

8812. (*Mr. Gillan.*) I want to ask you a few questions about this point of the Government lending money in India. I think you said you would require security for the loans?—Yes.

8813. And that you would take Government paper or Port Trust Stock, or things of that kind?—Yes.

8814. But not commercial paper?—Do you mean bills.

8815. Yes?—I do not think so.

8816. That is what you said, I think?—I did not say bills.

8817. No, you said you would not accept them?—I think not, no.

8818. Paper of that kind might often be really very good security, might it not?—Yes.

8819. The kind of security on which a bank would lend?—Yes.

8820. What I wanted to ask you was, in excluding commercial paper do you do so because as a matter of fact it is Government which is running the business at present, or because you think the security in itself is not good?—There would be no great object in Government taking, and, in fact, it would be very burdensome and very cumbrous if Government were, say, to take. hundis, in which the Presidency Banks hold very large sums; I think there is a difficulty in making advances, supposing these were re-discounted and held by Government or not exactly re-discounted, but made over to Government.

8821. I take it that is a difficulty which arises out of the fact that Government is running the business? —Yes. I mentioned these Government securities and debentures as I think they are clean and easily handled.

8822. I am not quite clear how you would conduct the operation of putting the money on the market. I think you said that you would not have a system of tender, but that Government would announce the rate and invite applications, or wait for applications?—I suggested that as far as the India Office were concerned.

8823. And you suggested it for India too, did you not?—I did not suggest it for India.

8824. (*Mr. Keynes.*) I think you suggested that the Government should fix a rate, wait for offers, and then, if the offers were more than it could stand, raise the rate?—That is it.

8825. (*Mr. Gillan.*) That is what I understood. The point I was coming to was this: Supposing the Government has announced a particular rate, we will say 5 per cent., how is it to distribute this money between the different classes? Is it to be merely to the first comer? Suppose Calcutta is the first and puts in an application and asks for all the money the Government happens to have at the time, then is Calcutta to get it?—It would appear so.

8826. In spite of the fact that possibly there may be a greater demand for money in Madras?—In Madras it might be. I have not thought that out as to whether it would be expedient to advertise, and say that the Government were prepared to lend out so much in gradual amounts.

8827. Is not that the difficulty?—It probably would be.

8828. I think you contemplated that some Government official should have the power of varying the rate from time to time?—Yes.

8829. There is another point of the same kind. Suppose you go outside the Presidency Banks and lend to Joint Stock Banks, then some Government official would also from time to time have to determine the status of the applicants, to determine whether they were banks of a kind to whom he could properly make advances, is not that so?—Yes.

8830. Would you give that power also to the Comptroller?—If he had the security—if the bank had the security to offer. It seems to me that is all the Government requires. They would not require to draw the line at all if they had the security.

8831. It is the Comptroller-General who is to do this business?—Yes, or any other official designated by Government.

8832. Without reference to the Finance Department?—He would have to be in touch with the Finance Department.

8833. But do you not get difficulties there? If he has to keep in touch, as he would have to keep in touch, with the commercial world on the one side, and the Finance Department on the other, and this is business of a kind, I presume, that would have to be done immediately——?—Would it not be possible for Government to say beforehand what they are going to have available, or what they could make available to finance trade in the course of the season? The Finance Department could do that.

8834. Estimates of that kind must necessarily vary? —I quite agree. They could be revised from time to time, but they could easily underestimate.

8835. The drift of these questions is this: I want to put to you in a general way that lending money is a difficult kind of business for Government to run. I put it to you, and I ask you whether you agree with it, or do not agree with it?—I do not think the difficulty is very great when you are dealing with security. You have got security. It seems to me that Government officials are doing much more difficult things.

8836. I think you said that if Government lent the money the advantage would go not only to Presidency Banks but it would work its way down to the Joint Stock Banks?—Yes.

8837. But you doubted whether it would reach further. You doubted whether it would reach the cultivator in any case?—Yes, quite so; a modicum might reach him.

8838. I take it, however, that your view is that a high rate of interest is a big drag on trade as a whole? —Yes.

8839. I do not know if you would agree that possibly it would affect the cultivator in this way, that the man who is dealing in produce and is taking money is taking advances in order to enable him to do so, and if he has got to pay very high rates possibly he cannot give the cultivator such a good price for the produce?—Yes.

8840. Is that possible? I am asking your views? —If the middleman is paying a big rate——

8841. Yes, then he is doing his trading under onerous conditions?—That is not such an important factor as if it is impossible or difficult for him to get the actual coin down. I do not think a matter of 2 per cent., the difference between 7 per cent. and 9 per cent., would much affect the price which the cultivator would get.

8842. You do not think so?—No, I do not. He takes interest as an incidental part of his business.

8843. What are the classes generally from whom you would get your deposits? Can you give me any indication?—We get them roughly from everyone in India, with the exception of Government servants, who never seem to be able to save money.

8844. What classes are included?—Indians of all sorts.

8845. Professional men chiefly?—Pleaders—they make numerous deposits—barristers and doctors, &c.

8846. Is there any other class you can mention, apart from the professional classes?—Natives?

8847. Yes?—Yes, there are lots of natives who have deposits.

8848. What are they?—It is difficult to say.

8849. I mean quite generally?—Practically it is from all classes.

8850. On the other hand, to whom do you make loans?—We make very large loans to Indians, and a good deal to Europeans, of course.

8851. Traders?—Yes.

8852. Apart from traders, do you lend to the lesser moneylenders, so to speak? Do the village moneylenders ever come to you for money?—No.

8853. So you would say that there is no channel of communication at present?—No, he is on his own, so to speak.

8854. Can you tell us about this system of cash credits to agriculturist societies? I understand your bank have been going in for that. Have you done much of it?—I started that, as a matter of fact, in connexion with our branch at Cawnpore. The matter was represented to me, and I had a talk with Sir John Hewett on the subject, and we did go in for it, and we did make loans. It is no breach of confidence, as it is stated in their reports, to say that the Unao Town Bank was our principal borrower, but they became so very wealthy that they do not

require any finance now. They are on their own. We have helped them through. So far as the bank was concerned, I had some difficulty in persuading the management at my head office. They took the view that these might be very serious competitors. My view was that these co-operative banks reach a class of people which it is impossible for us to reach. There are crops there to be financed, and you have only to take a journey through an agricultural tract to see the crops there. These co-operative banks are a power in the land, and we have to recognise that they have come to stay. I said: If you want to help them now, you may as well lend money to them and get a fair rate, as let the money lie idle. Most of them have become independent now, and do not require assistance.

8855. Do you look forward to a development of this kind as making it possible that there may be a connexion, which is at present wanting, between the Central Bank facilities in India and these local rural facilities—getting the money down and up again?—Yes, in so far as even Joint Stock Banks can help them we are helping trade by lowering rates all round, and I know that now some of these banks have invested in Port Trust Debentures, and so on, and when they are pressed they say, "We will borrow on these." Previous to that I gave them temporary loans on their promissory notes, which are the joint and undivided responsibility of every member of the society. I must say it was an experiment, but we came perfectly well through it.

8856. You think it was good business for the bank?—I had a great deal of sympathy for these co-operative banks, and I induced my bank to go in for it. I understand the Alliance Bank have taken to it also in the United Provinces.

8857. You mentioned the difficulty in connexion with the system of Government paper. The great bulk of the Government paper is held in this endorsed form, is it not?—Yes.

8858. There is an alternative, that is to say, stock certificates?—Yes. It is not very well known, I think.

8859. It is not so popular?—It is not so well known, for one thing. In my note to the Government on the subject I suggested that they should be more widely known, and that an alternative might be stock certificates, paper as it now is, or bearer bonds.

8860. Do you think that bearer bonds would be popular with Indians?—No, I do not think so. With business people it would be quite popular and would save a great deal of trouble.

8861. Apparently, in spite of difficulties, they do prefer these endorsement papers?—Yes.

8862. The Bank of Bengal, as agents of the Government of India, has to accept the responsibility for the accuracy of these endorsements, has it not?—Yes.

8863. So that it is natural that it should satisfy itself, as far as possible, that the endorsements are correct?—Yes.

8864. Another difficulty which you mentioned was, I think, that the endorsement by an agent of a railway company had not been accepted?—Yes.

8865. If the agent had been legally entitled to sign for the company the bank would have had no option but to accept his endorsement, would they?—You mean at the Public Debt Office?

8866. It must be a legal point, must it not?—I do not quite follow you there.

8867. As I understand, in certain cases, according to the constitution of the company, there are certain officials who can sign endorsements, but they are not legally entitled to bind the company?—I see.

8868. It must be a legal point like that?—Yes. They might have limited power.

8869. I only want to make it plain that the bank could not act in a case of that kind without consideration and legal advice?—Yes, in that case that probably was so. In the case of another mercantile concern, where they disputed the right of an attorney to sign the paper, it was said that under the Articles of Association it was not contemplated that the company should ever hold Government paper, and yet they could invest the money in everything else. The Government said in effect: No, it is not contemplated that you should ever handle Government paper; you are cotton merchants only.

8870. (*Lord Faber.*) May I just ask one or two questions more? If the Government has a certain amount of money to lend on specified securities would it do for them to ask for tenders from all banks?—I do not think there would be any objection if it were notified.

8871. Then you would get away from the difficulty of favouring one bank as against the other in rate or anything else, would you not?—Yes.

8872. Does the Indian Government lend its money out well now, in your opinion?—No, it is the biggest hoarder in India.

8873. Another question, which is rather a banking question. If the commercial banks lend to these co-operative land banks in India do the commercial banks find they can get paper and security from the co-operative banks?—I think they are becoming that way now. As I said, we did it first of all purely as a trial on these promissory notes which we had endorsed over to us, which the rural bank itself had got from the cultivators' society. We took their endorsements over.

8874. (*Chairman.*) A witness the other day told us that if you went to the Currency Office in Calcutta and asked for transfers to certain places the Government would give you a transfer at a better rate if you agreed to accept payment in sovereigns than if you took payment in notes or rupees; have you any experience of that kind?—Absolutely none.

8875. You have never known it happen in the case of a transfer between Calcutta and Cawnpore?—No, I have never known it happen in my experience that I can think of.

The witness withdrew.

Mr. M. R. SUNDARA IYER called and examined.

8876. (*Chairman.*) You are, I think, Secretary of the Economic Association of Madras?—Yes.

8877. You have been good enough to prepare a memorandum for us, and I propose, instead of asking questions on all that you have written, to print that memorandum as part of your evidence (*see* Appendix No. XXVIII., page 620), and only to supplement it by questions that I ask to-day. I would like to turn at once to the questions which you have not dealt with in your memorandum. Take, first, the question of capital expenditure; what have you to say to that?—All that I would say before this Commission is that it will be impossible to raise enough capital from England as we have been doing hitherto. There are various reasons for that. The first reason is that we cannot raise it so cheaply as we have been doing it hitherto, because 4½ per cent. 5 per cent. and 5½ per cent. seem to be the rates for some of the Colonial securities. The second reason is that we ought to be able to get the money at the time when we want it, because we are so much at the mercy of the seasons; and when there is an additional demand for it, it will be impossible to get enough at a reasonable rate and for a short period. The third reason I would assign is that sterling borrowing always inevitably leads to difficulties, whether they be currency difficulties or other kind of difficulties. In the long run it is not desirable for any country to be permanently the debtor of another country, because the debtor country will always be dictated to.

8878. What is the inference you draw from those premises?—That it is not possible for us to raise as much capital as we want from England.

8879. Do you, therefore, urge that more capital should be raised in India itself?—Yes. I believe that capital can be raised in India itself. I would suggest

a system of raising capital in India by means of what I may call something like the French rentes, that is by the issue of 5-rupee paper or 1-rupee paper. If loans are raised in that way, either through the post offices or through the co-operative societies, or various other agencies, I think plenty of money will be forthcoming for the needs of the Government of India.

8886. Do you think much more can be raised in India than has been raised in recent years?—I think very much more can be raised.

8881. Do you anticipate that the same classes would be willing to invest larger sums, or that new classes of investors could be found?—I believe new classes of investors could be found, apart from the people who are now sending money to the savings banks, and the large class who invest their money in landed property and in other ways.

8882. If they put their money into savings banks, those are Government savings banks in India, are they not?—Yes.

8883. Government does have the use of that money, does it not?—Yes, to a certain extent.

8884. On the other hand, if it is put into jewellery it lies idle?—Yes, it does.

8885. What alterations do you think would tempt those who now put their money into jewellery or hoard it, to put it into Government securities instead?—Getting some interest, however low it may be.

8886. They might do that now?—No; there would be a difficulty in this respect. A deposit in the savings bank is a matter of some difficulty to the large class of illiterate people. There is the question of going to deposit the money in a savings bank, and then there is the question of the signature, which would be a great hindrance in many cases. People who are not able to write their signatures properly—and among the Indians there are so many illiterate people—would be able to understand taking their money to a Government office and getting a scrip of paper for it, and then, a few months afterwards being able to go to the office and hand in the paper and get their money back with the interest added.

8887. What you suggest is really the issue of bearer securities?—Yes, something like that; a kind of certificate really which may even be transferred or assigned.

8888. In very small denominations?—Yes. If you were to adopt some such system as that, I am certain you would be able to get in each taluk from 10,000 to 20,000 rupees.

8889. Do you think there is scope for the issue of much larger amounts of rupee loans of the present character in India?—Yes. I think I have got some figures here showing how much we have taken back to India.

8890. It is the case, is it not, that India has been re-absorbing rupee paper in recent years?—Yes.

8891. What figure do you think the Government of India could safely count upon as being able to issue year by year?—I do not think I would be able to say that. I think it must first be tried.

8892. I think in recent years they have issued about 2 millions sterling in rupees, have they not?—That is so.

8893. In that case, would you go on increasing the amount experimentally?—Yes. The loans at present raised in India are not raised in a proper way. They are raised through the banks and syndicates, and therefore a large amount of the money that is available does not come in at all.

8894. Would you advise that class of loans being raised in any other way than they are now?—Yes; I would advise that they should be raised through the post offices, or through the co-operative societies, or through the district boards, or through any other agency which is in touch with the classes from whom these loans can be raised.

8895. Let me turn now to another big question: Are you in favour of the establishment of a State bank?—No, I am not in favour of a State bank.

8896. Will you tell me your reasons?—First, there will be the disadvantage of having the notes issued through the State bank. Certainly, the note circulation will decrease once it is handed over to a State bank, because the people will not have quite the same amount of confidence in a State bank note as they now have in the Government currency note; that will affect in its turn the circulation of the rupee, and that will complicate the question. Secondly, all of us believe that the Secretary of State for India and the Government of India are responsible to the Press and to public criticism, and I do not think that the Press and public criticism can in any way have any control over a State bank if it invests its money in the Argentine or in South Africa. Even if the system were introduced of having three Government directors as the old banks had in India, those three Government directors would always be in a minority as against the other directors. That is another reason which, I think, would be against the popularity of a State bank—that the Government would have no real control.

8897. You think the Government control would be insufficient?—It would be insufficient. There may be an objection among the people to entrusting their money to a State bank. I do not think the money would be any safer than where it is now, and the note issue could not be popular because, as I say, bank notes would not be accepted with the same amount of public confidence as the Government currency notes are. You want banks in every village; a greater decentralisation of the banks is what you want.

8898. You think India is too big as a whole for one State bank?—Yes, it is too big. You want money in every village, and I do not think the present banks finance Indian trade or Indian exigencies to the extent that they ought to.

8899. Therefore, you are in favour of more decentralisation, and you are not in favour of centralisation?—That is so. Even the banks as they are, I think, should have more branches in the districts and villages.

8900. Do you think that the Government could do any more than it has done to encourage the opening of new branches by the bank?—No. In India they are now very busy establishing co-operative societies; I think if that work could be done properly, it would after some years prove to be the means of helping almost all classes in the country.

8901. Do I understand that you look rather to the spread of the system of co-operative societies than to the spread of actual banking?—Yes.

8902. That is, if you have the kind of assistance that is needed from the Government?—Yes. I will explain it in this way: We had large deposits in banks until the recent failure of one bank at Madras, and since then people have been investing their money in landed property and in other ways.

8903. Have you studied the banking conditions of Northern India at all?—Only to a very small extent.

8904. Have you formed any opinion whether the Government of India ought to exercise greater control over all the institutions calling themselves banks?—I do consider that they should do so, not only with reference to the so-called banks which are not, properly speaking, banks, but also with reference to money-lenders and all those who place money at the disposal of the public.

8905. You think they ought to exercise such control?—Yes, over either banks or money-lenders.

8906. Now as regards the purchases of silver in London; what have you to say about that?—I think I have stated in my memorandum (paragraph 34, page 629) that I would stop the profits on the rupee coinage being added to the Gold Standard Reserve, and I would keep the profits in bullion so that they could be used for silver purchases.

8907. I do not follow your reasons for that recommendation?—There seems to be a good deal of misapprehension about having a silver branch in the Gold Standard Reserve. There is no necessity for having a silver branch in the Gold Standard Reserve if you have a fund for the purpose of purchasing silver. I think if one were able to point to such a fund as I suggest, that would put an end to all the misunderstanding which there has been of recent years about

the silver branch. I think some such fund is absolutely necessary for coinage purposes.

8908. At the present time the profits on the rupee coinage go to the Gold Standard Reserve?—That is so.

8909. The object of the Gold Standard Reserve is to maintain the exchange value of the rupee?—Yes.

8910. I think you have expressed the opinion very clearly and definitely in your memorandum that the maintenance of the exchange value of the rupee is of the highest importance to India?—That is so.

8911. In matters of currency and exchange that is the first consideration which the Secretary of State should have in his mind?—Yes.

8912. If you put nothing from the profits of the rupee coinage into the Gold Standard Reserve, how are you to build up that Gold Standard Reserve?—I think the present amount would be sufficient for the maintenance of exchange.

8913. Where would you wish that reserve to be held?—I would wish it to be held in London, mostly in gold, and in securities—a few millions of it in securities, say, because then it earns interest.

8914. What sort of figure would you suggest for the actual gold?—I cannot suggest a figure, but I would say the major portion of it may be held in gold, and the rest of it in securities.

8915. Would you say that 10 millions in gold would be sufficient, or would you prefer 15 millions?—I would consider 10 millions to be sufficient ordinarily.

8916. What leads you to think that 10 millions in gold would be sufficient?—It is simply this, that I would rather like the gold to be earning some interest instead of letting it lie idle. That is the only consideration which makes me say that. These securities can be easily realised in any time of stringency.

8917. You would agree that the first thing to have is security, would you not?—Yes.

8918. To be sure that your fund will be adequate for the purpose for which you have created it?—Yes.

8919. And you would agree with me, would you not, that you must not jeopardise its success in your desire to earn interest?—No.

8920. Since the Gold Standard Reserve has been established there has only been one serious crisis, namely, the one in 1907–8?—Yes.

8921. The amount of gold that was required at that time was more than the 10 millions you have named, was it not?—Yes.

8922. Yet the crisis was not a very severe one, was it?—It was a severe one, and there were some international complications also.

8923. But the centre of international complications was New York and not London?—That is so.

8924. A London witness said to us that the situation would have been much more serious had the storm centre been in London?—I think he would know better than I.

8925. Take the Indian side; you have known much worse famines occur in India than occurred in that year, have you not?—Yes.

8926. It might happen even that a period of war coincided with a period of famine?—Yes.

8927. Bearing in mind that, as you have admitted to me, the first object is security, do you not think you are putting the figure for the reserve rather low?—No.

8928. Having in view all those possible eventualities?—I would only say that I do not look upon the fund in the Gold Standard Reserve as the only means to tide over such a serious crisis.

8929. To what else would you look?—I would look to the gold reserve in the Paper Currency Reserve, to getting gold from the cash balances, and then, if necessary, some loans could be raised.

8930. Of course if the storm centre is in London that would not be propitious for raising loans?—No. I would gather the reserves for that then.

8931. Under such conditions as I have suggested, the balances might be very low?—Yes, they might.

8932. But you would still have the Paper Currency Reserve to draw upon?—I think we cannot go on storing up gold in the expectation of such a great crisis. No figure would be high enough to meet such a serious crisis as would be caused by a war in India with famines and international complications all occurring at the same time. I do not think any figure would be sufficient to provide for such a crisis.

8933. I do not think they would all arise together; but I do want to suggest to you that there are these various circumstances which, either in combination or separately, might produce a severer crisis than the experience of 1907–8?—That is so.

8934. And that even in 1907–8 you required more than 10 millions of gold?—That was so.

8935. Therefore, perhaps it would be wise before you begin to think about interest, to accumulate in the reserve more of the actual metal than you have suggested?—I do not fix the figure at 10 millions. It may be 10, 12, 13, or 15 millions; it all depends on the state of Indian exchange.

8936. One or two witnesses who have come before us have thought that the strain upon the Gold Standard Reserve could be relieved if the circulation of gold in India could be increased; but I think from your memorandum that you are not in favour of increasing the gold circulation?—No; and I may say that I do not believe it could be increased in any way. I have pointed out in my memorandum some of the places where the gold would go if it were issued.

8937. I think you hold that a very large proportion of the gold which has been taken by India in recent years has not gone into circulation at all?—That is so; it goes into the melting pot in the ways that I have mentioned in my memorandum (Appendix XXVIII., page 624 *et seq.*).

8938. You have pointed out to us in your memorandum that the laws of inheritance tend very strongly to increase the hoarding of gold in the form of jewellery?—Yes, very strongly.

8939. Do you suppose that in a time of crisis much of that hoarded gold which is held in one shape or another would come out?—If it was a personal necessity it would come out.

8940. That is to say, if the pressure of famine forced the people to sell it?—Yes.

8941. Do you think it would come out of the hoards except under those conditions?—It would not come out except under those conditions, because no one parts with his jewels until the worst happens.

8942. Do you regard the gold in circulation or in hoards as a material support for exchange?—No, I would not consider it to be a material support.

8943. As far as exchange needs protection, you could only look——?—To London.

8944. To gold in the control of the Government?—Yes.

8945. In the course of your memorandum you say that recent experience shows that capital is not flowing freely from England to India?—That is the case (*see* page 620, paragraph 3).

8946. It was, I think, the hope of the Fowler Committee that with the establishment of a stable exchange the flow of capital from this country to India would be very much encouraged?—Yes, it was.

8947. The stable exchange has been attained, has it not?—Yes.

8948. Why do you think, then, that the hopes of the Fowler Committee have not been realised?—I do not know whether I can say much in explanation of it, except that the higher rate of interest elsewhere has been a temptation.

8949. In other words, it is due to the superior attractions of other places?—Yes.

8950. And it is not due to any fault or deficiency on the part of the Indian Government?—No, it is not the fault of the Government of India.

8951. In your memorandum you give figures showing both the imports and the circulation of sovereigns in India; may I ask from what source those figures are derived?—From Mr. Atkinson's published statistics. They are all taken from there.

8952. Do you know at all how he arrives at the number of sovereigns in circulation?—No; I am taking it on trust.

8953. In your opinion, I understand that the sovereign is not a coin which is required as a coin by

the people of India?—No, it is too large for their ordinary daily transactions, and the larger payments are made in notes.

8954. Would you say that is true of all the districts in India?—I can speak only as far as my knowledge is concerned.

8955. There are considerable differences in the different localities, are there not?—There are differences. But one knows the money that is wanted for the ordinary transactions, and I should rather say that what I have stated would be the case in Bombay and Madras, except perhaps with a few traders in Bombay.

8956. Would you agree that, as far as they can do so, the Government of India should meet the requirements of the public and give them whatever they ask for?—I will not say that the Government of India should be obliged to give them gold.

8957. But if they have gold to supply, and the public ask for it, they should give it?—Certainly, they may give it then.

8958. You would give it?—I would.

8959 In cases where the public is indifferent, what do you think is the wisest course for the Government to pursue?—To pay in silver or in notes.

8960. But not in gold?—Not in gold.

8961. I infer from the answers you have already given me that if they paid out in gold, you do not think that in a crisis that gold would materially support exchange?—It would not materially support exchange.

8962. In regard to another question referred to us, have you any criticism to make of the management of the balances in recent years?—I have pointed out in my memorandum that it is only a temporary phenomenon, and that the balances are not usually heavy with the Government of India. It is all due to temporary causes, such as a series of good seasons and also to unexpended sterling loans.

8963. So you think it is due to abnormal circumstances?—Yes, I do. You cannot expect to have heavy cash balances in the next year and the year after next. I mean in successive years. The Government of India have to finance large transactions, and I would consider that even these cash balances are not a very heavy amount for them. I would leave the cash balances to the Government of India to be used for the necessities that will arise, and I would not lend them to the banks, because that is not going to be useful to the Indian taxpayers; it may be useful to some of the banks, but it is not useful to the country at large if you do that.

8964. Do you mean that when they have a surplus in India beyond their requirements, you would propose that they should leave it in their treasuries until they require it?—They might use it in the reduction of their capital expenditure. That is the only direction in which they can use it.

8965. It is always the case, is it not, that just in the busy trade months of the year a good deal of Indian revenue is collected?—Yes.

8966. And that therefore just at those months, when money is scarce in the money market, the treasuries are rather full?—Yes.

8967. The money which fills the treasuries is money which will be, speaking generally, needed for the expenditure of the year, is it not?—Yes.

8968. So that under those circumstances it cannot be paid out at once for capital expenditure?—It cannot be paid out at once for capital expenditure; but it is no use to lend it to the Presidency Banks, as that will not assist Indians at large. It will perhaps be helping the Presidency Banks to a large extent in their business, but the Presidency Banks do not finance Indian trade as they ought to, or as one would expect them to do. The money might be used in other ways.

8969. Would you develop that a little? Suppose the Government of India did lend out money in the busy season when you have bank rates of 7 per cent. or 8 per cent., and suppose the Government of India lent out enough money to bring the bank rate down to 6 per cent., do you think that the effect of that would not reach further than the white community?—It would reach further, but not so far as I have in view, where the rates prevailing are from 12 per cent. to 20 per cent. or even 24 per cent. I think that is the rate at which the ordinary Indian business man borrows.

8970. Then your view is that what I may call the cultivator's money market has really no connection with the bank rate?—That is so.

8971. And that the relief of the bank rate would never get down to him?—It would not get down to the 70 or 80 per cent. of the people who are agriculturists. If the money is going to be lent out to these co-operative societies, or to banks which are at the disposal of the people at large, then it would be useful; but I do not know whether the money could be returned back when the Government of India wants the money, if it were lent out to these institutions.

8972. Might it not be filtered down to a considerable extent to those institutions through the Presidency Banks?—No, it does not do so, so far as my experience goes in Madras.

8973. If it is convenient to the Government of India to lend from one source or another, and it can earn some interest by doing so, do you object to the Government lending to the Presidency Banks?—No, if it can be done without inconvenience.

8974. But you do not think a great advantage would ensue to the commonalty?—No.

8975. (*Lord Faber.*) Suppose a bank is able to lend out 100*l.* for only six months in the year, and during the other six months it is not able to lend that 100*l.* out at all; should you think it too much to charge 6 per cent. for the six months, bearing in mind that for the other six months the bank could not lend the money at all at any price?—No, I would not consider it so.

8976. (*Mr. Keynes.*) When you said that the notes would be distrusted if they were taken over by a central bank, were you thinking of notes which were changed in form from the present form?—No, it is not a question of form. I think it would then be only a bank note, and that is how the people would consider it. I am speaking purely from the point of view of the ordinary man in the street; he would not consider it of the same value. A currency note he considers to be a Government note which can be offered at a Government office or treasury, where he knows the officials, and where he knows he can change the note for the 5 rupees, or the 10 rupees, that it is worth. On the other hand, if it is a bank note, it is a question of going to the bank and getting it cashed. That will affect what I spoke about as the popularity of the note, and therefore a bank note will not circulate so much as a currency note circulates at present.

8977. If the guarantee of the Government is retained, and there is no change in the form of the note, and the note issue is governed by certain rules laid down by Act of Parliament, what would be the effect of the change, do you think?—I do not think the notes would circulate freely.

8978. Even if the Government guarantee was maintained?—That guarantee is not of much use once this law is passed. People who hold currency notes know that they can hand them over and get payment, but I do not think any legislation will make the thing clearer to them, or do away with the feeling of distrust and the want of confidence. They will throw the bank notes on the market.

8979. Do you think so, even if the guarantee of the Government were retained?—It is not a question of the guarantee. At present I do not think that everyone is conscious that all these notes bear the guarantee of the Government. It is not that that makes them use them. It is the feeling that these notes are money. These are cases in which currency notes have been hoarded to the amount altogether of 1 crore or 2 crores. A man looks upon them as money. A bank note will not have the same value in their eyes.

8980. The currency offices of which you speak are very few in India, are they not?—There are a certain number of them.

8981. The people cannot rely upon being able always to cash these notes, therefore?—That is so,

but the feeling is that at any moment a man can take it to the office and have it cashed.

8982. By far the vast majority of the people of India have never seen a head currency office?—I think most of the people do see the offices, because they go to them to pay in the revenue.

8983. The head offices are only eight in India?—I am talking of the district treasuries, where currency notes can be changed.

8984. At those places they do not necessarily cash them?—They do cash them.

8985. Not on all occasions?—On every occasion I know of.

8986. How many of those offices are there?—I have no means of telling you how many there are in the districts. I am talking of treasuries and sub-treasuries.

8987. We have received evidence that there is no great freedom of exchange at these offices. Notes may be received in payment of taxes, but they are not easily or habitually changed in the sub-treasuries. We have received evidence that what you have been saying, that these notes are cashed at these sub-treasuries for the public, is not the case?—That may be so, but any note that is taken to a treasury is cashed; the money is paid over the counter.

8988. (*Mr. Gillan.*) You cannot depend on that?—No.

8989. It is merely if it happens to be convenient?—Yes.

8990. If they have got rupees there you can get the rupees for your notes, but if they have not got the rupees you have got no claim against them?—That is so; but when they cash your note, nobody explains that it is only a special occasion, and that the next time you will not get it. It is looked upon as a place where you can change notes.

8991. (*Mr. Keynes.*) I think we were told in evidence that at the sub-treasuries notes were never cashed for the public?—Notes are cashed; I have taken the notes there and got them cashed.

8992. Sometimes?—Yes.

8993. Are you only saying that it is an idea abroad that these notes are cashed at the treasuries, or do you mean that they can change a note at any moment they like?—The feeling that underlies the large circulation of these notes is that they are Government notes. Once the note circulation gets into the hands of the banks, the people will have no more confidence in it.

8994. I think it is surprising that the people should have that feeling of confidence in the currency notes, when, as a matter of fact, they can only occasionally change them at the offices that you speak of?—As long as the Government issues the notes and circulates them, the people will take them for their value.

8995. Do not those occasions—we have had evidence that they are frequent—on which they are unable to cash them rather shake their confidence in the notes?—It does not matter, as the man can go to a shroff and get a note cashed. He knows he can get it cashed anywhere, and that is why there is a feeling of confidence.

8996. I am suggesting that this confidence does not really depend upon their being able to take it to the currency office, but on the general position which the notes have attained?—I think you attach too much importance to their being changed at the Indian currency offices; but I would say there is a feeling in the mind of every man who has got a note in his hand that he can immediately turn it into cash, as the Government is responsible for its payment immediately whenever he wants the money. That is the feeling which has brought about the large circulation of the currency notes, and Indians will not have the same confidence in a bank circulating its own notes. It may be curious and it may be surprising, but that is the feeling, which one cannot get rid of.

8997. You understand that I am imagining a case in which the notes are managed, as one may say, by the bank, but the Government guarantee remains, and there are certain rules regulating the issue of the notes, which are not changed in form, which are encashable at more places than they are now, but which are managed by the bank instead of by the Government—that is the whole amount of the change. I am not supposing a case in which the present currency notes are abolished and are replaced by what you call a bank note?—I quite understand that, and any other educated man can understand it, but I am talking from the standpoint of a large number of illiterate people in India. I do not know who would undertake to go to them and explain to them that the new note is the same as the old note, and that there is no difference in it.

8998. But if there were no difference, would it not be easy?—It may be curious, but if it is a bank note and not a currency note of the Government, that is enough to spoil it and to lessen its circulation. That is how I will put it, though it may be strange.

8999. (*Sir Shapurji Broacha.*) Do you not think hoarding is an instinct with us in India? For the reasons you have stated in your memorandum you know it is almost inherited?—I will not say it is inherited, but all these conditions and circumstances must tend to increase it.

9000. Would you not agree with me that it is an instinct which we have inherited, owing to the unsatisfactory character of the Governments that we have had in India before?—I will not say that. Assuming education advances, and that many Indians hold very responsible appointments, and that most of them know exactly what and how necessary investments are, even under all those conditions I do not think hoarding will lessen, because of the reasons which I have mentioned.

9001. Of course we are getting rid of the hoarding gradually, and we are bringing out the money, as we know; still it is almost an inherited instinct which we are getting rid of by education?—No, excuse me, I will not say it is an instinct.

9002. In 10 years we have imported 70 millions in bullion and 57 millions in sovereigns, that is 127 millions sterling, which is equal to 190 crores of gold, and the only visible sign of that are the 25 crores left in the currency. Would such a thing happen in any other country?—I cannot say what would happen in other countries. I can only say that we can imagine that it would not happen in any other country, but we know exactly what happens in India.

9003. In other countries the sovereigns are either in the banks or they are preserved, as it were, for contingencies. For instance, if England had imported 10 millions sterling, certainly 7 millions would have been in the Bank of England, or even 8 or 9 millions; whereas out of the 190 crores which we have imported into India, we only see visible signs in the possession of the Government of some 25 crores. As you know, more than any other country, we keep, either for ornaments or for hoarding, gold out of circulation; do you not admit that?—It is true.

9004. If there were an alarm of war, or anything like that, instead of that gold coming out of the hoards the people would ask for more; they would deliver their rupees and currency notes and ask for gold, would they not?—Yes.

9005. So that a gold circulation pushed by the Government under the idea that ultimately it would help the par of exchange is a mistaken notion?—It is mistaken; and that is what I said previously.

9006. Now about currency notes; we have been accustomed to currency notes for the last 62 years, have we not?—Yes.

9007. If we were to make any change of policy in respect of them through a State bank, or anything like that, even though we were to guarantee them, our people would be suspicious?—Yes, they would be suspicious.

9008. And they would think that the State wanted to shirk its responsibility on to the bank?—Yes.

9009. So, instead of increasing the note circulation, the note circulation would go back?—Yes.

9010. Whatever may happen 50 years hence or 25 years hence, the first effect of a State bank circulating notes, in whatever form you like, would be to decrease the circulation of the notes, would it not?—Yes.

9011. So a State bank would not help the circulation of the notes under any circumstances?—No, it would not.

9012. On the contrary, it would put the circulation back?—Yes.

9013. You told the Chairman that you think India is too large for a State bank?—Yes, I do think so.

9014. Now about the wealth reaching the cultivators. We have some co-operative banks; for instance, there is a large co-operative bank in Bombay; and through them the money goes to the cultivators by means of the punchayats, or village communities; do you admit that?—Yes,

9015. The co-operative bank in Bombay registers the assets of the village, and whatever loans are taken for the moving of the crops by the village, the amount is guaranteed by the whole syndicate of the village; that is a greater facility than any State bank would give, is it not?—Yes. I would have that, not only for agriculture but for the other classes. I would like to see co-operative banks for weavers and for each class of the community in order to help that community in the particular way they want with loans and advances. They would be much more useful than any State bank could be.

9016. It would go farther down into the middle and the lower classes than the State bank would?—Yes; and they are the classes who really want the money and cannot get it cheap.

9017. If a State bank were formed with its manager and directors at Calcutta, you know that at present the directors of the Bank of Bengal are all Europeans, though the directors of the Bank of Bombay are half natives and half Europeans; with such a management for the State bank as they have in the Bank of Bengal, the State bank would be of very little service in your districts, or in any other part of India, as it would not reach the cultivating classes?—That is so.

9018. Nor the middlemen between the cultivating classes and the banks?—That is so. All that the middlemen do is they take the money at a lower rate of interest and they lend it at a high rate of interest.

9019. So that a State bank would be doing really less service than the three Presidency Banks are doing now?—Certainly. There has been a discussion in the papers, and in Parliament, in which very much has been said about the Indian view and Indian opinion. If by the word "Indian" is meant presidents of the Chambers of Commerce and the European managers of the banks, or an Indian who is a director of half a dozen banks, they would have used a very proper term; but if what is meant by the word "Indian" is the large class of agriculturists and artisans, then if it is said that the views which have been published are the views which Indians have, I think they are taking the name of the Indian in vain.

The witness withdrew.

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ON

INDIAN FINANCE AND CURRENCY.

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LIST OF WITNESSES EXAMINED.

Date.	Name.	Pages of Evidence.
1. October 23rd, 24th -	Sir JAMES MESTON, K.C.S.I., Lieutenant Governor of the United Provinces, and formerly Secretary to the Government of India in the Finance Department (1906–1912).	1
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ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

VOL. II.

TWENTY-FIRST DAY.

At The India Office, Whitehall, S.W.

Thursday, 23rd October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir JAMES S. MESTON, K.C.S.I., called and examined.

9020. (*Chairman.*) I think you are at the present time Lieutenant-Governor of the United Provinces?—Yes.

9021. Would you, for the sake of putting it on record in connection with your evidence, just give me a sketch of your previous Indian experience?—I have served in India, with a brief interval in South Africa, since 1885. For four and a half years I was Financial Secretary to the Local Government of what is now the United Provinces; and from July, 1906 to the end of March 1912, I was Financial Secretary to the Government of India, and also for a few months held the post of Finance Member before Sir Guy Fleetwood Wilson arrived. For the last 18 months I have been out of direct touch with the Finance Department.

9022. In the course of your long Indian career you have of course had very considerable experience of Indian finance?—Yes.

9023. I think you attend here to-day on the nomination of the Indian Government?—Yes. The Government of India have delegated me to explain as far as possible their views in regard to finance and currency. Perhaps I might explain that although they did so delegate me, they have not given me any definite instructions with regard to a number of points which seem to have occupied the attention of the Commission, and possibly the Commission may, if it sees fit, allow me to differentiate between any views which may be my own personal opinions, and the description of the views which are either on record or have been the subject of discussion by the Government of India.

9024. We should be glad to do so whenever you think proper. I propose to ask you some questions which will no doubt be supplemented by my colleagues, but I should like to say at the outset that if there is any matter which our examination leaves untouched, or which it leaves in your opinion obscure, I should be glad if you would tell me, say at the end of your examination, and supplement the statements you have made in answer to our questions with any further statements you think desirable?—I am much indebted to you.

9025. One of the first questions that attracted our attention was the high balances which have existed in recent years in London and in India. In regard to the Indian balances, to what extent would you say that their size was deliberate and to what extent it was accidental?—I think it would be unfair to describe the large balances in India as in any way deliberate. Some difficulty in answering the question arises from the fact that in considering the cause of our high balances we have really to take the Indian and the English balances together. We always proceed on the theory that the two treasuries are one and indivisible, and, as the Commission knows, the extent to which those balances are located in India or in England is very largely dependent on the action of the Secretary of State in drawing bills on India. With that reservation I should, on behalf of the Government of India, definitely rebut any suggestion that the balances were intentionally high.

9026. You will agree, I suppose, that they have been abnormally high?—They have since 1908–9 been abnormally high.

9027. The fact that they have been abnormally high is, I think you suggest, in part the cause why the London balances have been abnormally high; that is to say, the large amount of money available in India has enabled and encouraged the Secretary of State to draw more largely than he would otherwise have done?—Quite so; but the real radical cause why he has been enabled to do this, of course lies in India, because there we have collected our revenue, and it is there in a very large measure that we have fallen short in our estimated expenditure.

9028. What are those underlying causes in India?—To begin with, the theory on which we proceed is to budget as closely as possible for a closing balance of about 12 millions in India, and we understand that the Secretary of State requires a minimum of 4 millions in England. Now, as against this 16 millions, we have the fact that in 1908–9 the year closed with a balance of 18¼ millions. That in itself provided a margin which I think no one would regard as unreasonably

high; but between then and the same date two years later, namely, the end of 1910–1, the balances had risen to 30¼ millions. In the subsequent period of another two years, up to the close of 1912–3, there was practically no reduction, so that perhaps you will allow me to take those four years as the period to explain. The increase in the balances is due—this is a mere truism—to the excess of actual net receipts over the budget figure. The main elements in the rise during the first two years were the large Imperial surplus, which for those two years I think aggregated 4½ millions, and the large provincial surplus, which in the same period aggregated 2¾ millions. The third main cause would be lapses in railway expenditure. In the following two years the budget was again very heavily exceeded by about 12 million sterling, and owing to that fact it was found impracticable to make any reduction in the general cash balances. If we go a step further and examine the reason why the Imperial surplus was so very much higher—perhaps I had better take the Imperial and provincial surpluses together, as that would make it very much simpler—than the Finance Minister had budgetted for, we find that, between the 1st April 1909 and the 31st March 1911, the opium was better than our estimate by roughly 4 millions sterling; Customs were about 600,000*l.* better—I am giving very rough figures; the railway revenue (net) was about 600,000*l.* better: what we call civil charges, that is the ordinary expenditure on the administration, such as education, medical charges, police, and all the rest of it—were about 600,000*l.* less than the estimate; the army expenditure was about 800,000*l.* less; and other heads contributed an improvement of one million sterling, the chief factor in them, as far as I remember, being the interest on these high balances which we are now discussing.

9029. May I interrupt you for a moment to ask whether, in regard to railways and education, the net expenditure was what we call here a failure to expend, or whether it was due to a real economy; that is, whether it was due to your inability to expend in the particular year the amount which had been granted, or whether it was due to permanent economies which rendered such expenditure unnecessary? — Perhaps I might split up my answer. The railway lapses, that is to say, the lapses in capital expenditure, were, I think, due to a failure to spend and not to any intentional economy. On the other hand, there was a very large addition to railway revenues, and both these factors worked in the same direction as regards the comparison with the budget. The two years were years of great prosperity, and the railways, as they always do, responded.

9030. I think we have had it in evidence before, but at the moment I forget; do the figures which appear for the railways in your Indian accounts represent the net revenue, or do you show the gross revenue on one side and the expenditure on the other side?—We have a device by which we show both on the revenue side. We show the gross revenue and underneath, in italics, we show the working expenses as we call them; then we draw a line and show, for revenue purposes, the net revenue.

9031. So what you bring into account is the net revenue?—Yes.

9032. Which would be increased, if the takings are greater?—Yes.

9033. Or if the expenses are less?—If the working expenses are less. It is a curious but well-known fact that in the years in which the receipts are very high, the working expenses rather tend to go down in some directions (*e.g.*, maintenance and repairs), but to rise in others (*e.g.*, running charges, coal, &c.), so that it is difficult to say precisely what relation there is between them. Coming to the second part of your question about education, I should prefer to put the position in this way: The Government of India found at the end of these two years that it had a considerable sum in hand which it had not expected, and had not prepared for, but which it was quite ready to spend profitably after due deliberation. The method in which it employed those funds was, to some extent, to hand over large grants for education and sanitation to the local Governments. The grants came to them at the end of the financial year, and indeed came to them very often at a time when they had got no definite programmes ready for their expenditure. The result was that the money was put away in the provincial balances, which form an item in the Imperial account, until such times as the local Governments should be able to draw up a most careful and economical programme for that expenditure. A large amount of those educational grants and of the medical grants is still lying in the balances, because—I can speak for myself, and I think that all the other local Governments would agree—it would be the greatest possible calamity to plunge into expenditure before we had got a programme ready for the most useful employment of the money.

9034. Should I be right in thinking the money is earmarked for those particular purposes?—Yes, carefully.

9035. When I interrupted you, you were enumerating the causes of the abnormal surplus?—I have given very briefly the main causes for the original rise in the balances from 18¼ millions to 30¼ millions. The ordinary procedure then would have been to arrange for a considerable reduction. That reduction in the next two years was not effected, for the following reasons: The budget was again exceeded under the following main heads—opium brought us 3·3 millions more than we budgetted for, Customs 0·6 millions, railways 3·9 millions, and other revenue heads, 2·3 millions.

9036. Are you now speaking in rupees?—No, I have been speaking in pounds sterling.

9037. They brought you in that amount more than you expected?—More than the budget. The total of those purely revenue heads was 10·1 millions. Then there were lapses in railway capital expenditure to the extent of 0·7 millions; there were lapses on the expenditure for the new capital at Delhi of 0·7 millions; and under other heads 0·5 millions, or altogether 12 million sterling. I think those are the main figures which elucidate the statistical position.

9038. I think we have had it in evidence that in each year the Government budget estimate was framed with the object of reducing the balance to something like normal, but that the renewed excess of income and deficiency of expenditure instead of reducing the surplus rather tended to increase it?—That is so.

9039. I am very far from desiring, even in a question, to indicate any disposition to blame the Government of India for caution in their budget estimates, having regard to what we have heard here as to the uncertainties of Indian revenue. But looking back on those years with the wisdom which comes from experience, would you think it unfair to say that the Government did err a little on the side of excessive caution in their financial estimates?—I must admit they did. Perhaps I might have an opportunity some time of explaining the reasons. There were reasons, because it was a course which was not lightly or hastily entered upon.

9040. I take it one reason was the great uncertainty of the opium revenue and the necessity of the Government estimating that revenue on the most conservative basis?—That was one very great reason.

9041. Perhaps it would be convenient if you indicated the other reasons now?—The broad reason is what you have already mentioned—the fact that in our financial work in India the only possible tradition upon which we can work, the only possible theory upon which we can base our calculations, is great moderation in our estimates of all ordinary revenues. We have to assume that the harvests will be normal and that all the numerous consequences which follow from them will be on the same lines. The fact is that for several years the caution that was exercised, and ought to have been exercised, on those lines was veiled by the large reductions of taxation that were made in Sir Edward Baker's time. When Sir Edward Baker was Finance Minister he deliberately set himself, with the full concurrence of the Government of India, to remove as far as possible all the extra taxation that had been imposed on India during the time when we were struggling against bad exchange. It was felt that our first duty to the taxpayer in India when we

got our rupee on a stable basis was to get rid of that extra taxation. The consequence was that year after year a very large excess over our ordinary normal caution would have appeared in our figures if it had not been for those large reductions. Then there came at the end of that period, with striking suddenness, the catastrophes of 1907, 1908 and 1909. We had a big famine in 1907, and we had, as the Commission knows, the American financial crisis; so that in 1908–9 we closed with a deficit of 3¾ millions in our revenue budget. That was simultaneous with the arrival of a new Finance Minister, and the first experience which he gained of Indian finance appeared to him—and very naturally appeared to him—a failure on our part to realise the dangers to which we were exposed. It also forced the Government to call a halt in all this liberal policy of the remission of taxation. The result was that the next year a certain amount of new taxes of which you have heard, on tobacco, silver and other things were imposed. It is quite arguable now, and I think it was quite arguable even then, that for immediate needs that taxation was probably unnecessary, and that we could have got over the crisis of 1908–9 by temporary borrowing. But there appeared at the same time on the horizon a consideration which is not probably before the public. That was the fact that the Government of India knew that very large claims were going to be made upon it under Lord Morley's instructions for the development of a programme of social reform. We knew that a very big scheme of education was in the air, and we had estimates prepared in the Secretariat, which have never been published, which indicated the enormous call upon us in the near future. It was the same with sanitation and medical advancement; and the same with the improvement of the police. It was also evident that in many respects the Army was getting behind in its equipment and armament. Hanging over us the whole time was what appeared to us at the moment the terrible calamity of the loss of the opium revenue. We knew that China was moving, and we knew that sentiment in India was very much in sympathy with it. The net result of all these considerations was that we felt that a certain amount of financial heresy was permissible. It was essential to economise, and we did economise very considerably. We also stood by the taxes that had been imposed ostensibly for the troubles of 1908–9, and which were now necessary for the real needs of the country in the near future. This explanation may possibly not be regarded as a defence of under-estimating, but I think it is a reason for anticipating high surpluses. The under-estimate, I think, was simply a matter of, as you have said, probably exaggerated caution. There the personal element comes into play. Some of us would have been prepared to budget for a crore or two more, but the Finance Minister of the day felt that he had come in at a very difficult time and that he had a very difficult part to play, and he was determined to be on the safe side.

9042. I suppose if any British Chancellor of the Exchequer had been confronted with the same circumstances that you have described as having faced the Indian Finance Minister, he would certainly not have been disposed to over-estimate his revenue in the immediately ensuing year?—I fancy not. He would also have had the advantage probably of being able to take the House of Commons into his confidence.

9043. When all that is said and done, we come back to the fact, do we not, that, apart from the circumstances of those particular years, Indian budgetting is a particularly difficult operation. I make that suggestion because it appears from the evidence that we have received that the revenue of India, whether it be derived directly from agriculture or indirectly from agriculture, is really dependent upon the harvesting of the crops, and the Indian Government has to make its estimates at a time when it has no knowledge and can have no knowledge of what the crops are likely to be; that is so, is it not?—That is perfectly true.

9044. It has been suggested to us, and I should like to make the suggestion to you, that the Finance Minister could estimate with much more accuracy if the Indian financial year were changed. Suppose that instead of ending, as I think you do, with the last day of March and beginning your new year on the 1st day of April, you began the new year on the 1st day of October; by that time would he not have, at least as to the major monsoon, such knowledge as would enable him to make a much more accurate and satisfactory forecast of the probabilities of the Indian year?—That subject has been considered from time to time, and I think the main considerations in weighing the proper date are, as you say, the desirability of greater knowledge of the consequences of the monsoon, and also the recognition of the very long time which it takes to prepare our budget. The Indian budget is an amalgamation of a vast number of other budgets which are prepared by all sorts of authorities, right down to the district officer. It is hardly an exaggeration to say that the district officer, who after all is the authority directly responsible for the collection of the land revenue, on which everything hinges, begins his calculating six months before the budget is discussed in Council. Now, if the financial year were altered to an October–September one, we should have the district officers beginning to prepare their estimates long before the monsoon commenced. It is quite true that we could correct them roughly and on broad lines in August, but the correction would not be a particularly valuable one, because although it is true that most of the rainfall judged in inches ought to fall if it is going to fall at all by the end of August, still there is an extraordinarily important period of rainfall which comes about the third week in September, and if that fails, our experience has always been that there is a great shortage in the area which it is possible to value for the Winter crops, which after all are the great export crops. Consequently we are a little sceptical whether we should be able to prepare a budget to put before the Council on the 1st September—the latest possible date we could do it—which would be much more valuable than the present estimate.

9045. I was suggesting that you should begin your year not on the 1st September but the 1st October?—I am assuming that our financial year begins on the 1st October. Our present practice is to prepare the budget and place it before the Council precisely one month before the commencement of the new financial year. At the present moment our budget is laid before the Council on the 1st March for the year beginning the 1st April following, Under the scheme you suggest I assume the present conditions, *ceteris paribus*, would prevail and therefore the budget would, I take it, have to be ready on the 1st September, and at that period we should not be in a position to give a very valuable estimate of the consequences of the monsoon which was just then closing.

9046. My experience is British, as you know. We do not here habitually present the budget until after the new financial year has commenced?—We have always prided ourselves upon our virtue in that respect, that is, upon finishing the whole of the discussion before the year begins.

9047. All I would suggest is, that there would be no serious loss of revenue if your budget statement was made shortly after the 1st October or close to the 1st October, instead of being made a month in advance of the new year?—Quite the contrary; we should be very glad of the extra period of grace, because it would enable us to give a much more correct statement of the actual figures of the year just finished.

9048. Is there any insuperable objection in regard to the necessary movements of the Indian Government and of its officers in making the financial year commence about that time?—I do not think so.

9049. It would not interfere with the Viceroy's or high officials' Autumn district tours?—The consideration of the budget in Council alone takes quite a month, and a change of the date which you indicate would mean that the Council would meet for that purpose at the Summer headquarters of the Government, both for Imperial and for provincial Governments, which might be inconvenient to a number of the unofficial members. Several of the Indian gentlemen on the Council rather dislike being detained

for any length of time in the Hills, and the same would apply, I think, to the local Governments. To that extent there would be inconvenience. But if the Commission contemplate the discussion of changing the dates, might I suggest that the calendar year would be in many ways one which would suit us very much better than the present financial one.

9050. Would you prefer that to a year beginning on the 1st October?—I think it would be much more helpful to us from the point of view of precise estimating, and from this point of view also: Assuming that we maintain our previous standard of virtue and lay the budget on the 1st December, we should then have before us a full and complete account of the rains; we should know exactly what sort of harvests we were going to get in, and what sort of revenue was going to come in, during the first three or four months of the year; and although it is true that we should miss the experience of what is called the Winter rains, still we should, I think, be able to give a slightly better and a slightly stronger estimate than we do under the present conditions. But I do not think the 1st October would help us.

9051. It has been objected in evidence before us that at the present time—and I suppose this must be the case whatever your financial year is—the great bulk of your collection of taxes takes place at the time of the greatest trade demand for money, and that you have in fact more money locked up in your Treasuries at the moment when the trading community needs it for the movement of crops than at any other time of the year?—Broadly speaking, that is true.

9052. In so far as it is true it is unfortunate; perhaps you will agree with me in that?—Yes.

9053. I want to put to you a suggestion for your opinion. A good many witnesses have attempted comparison in this and in other matters between Indian conditions and British conditions here at home; I can see that there are very great distinctions, but for the purpose of putting my question it would be convenient for me to use our British practice as an illustration. A great part of our revenue, almost the whole of the income tax, for instance, is collected in the last quarter of the financial year; if we followed the Indian practice we should, I suppose, budget for such opening balances as would make us independent of borrowing for the first three-quarters of the year, and we should meet the expenditure of those three quarters, in so far as it was in excess of the revenue then coming in, out of the balance carried forward from the preceding year. As you probably know, that is not the system which prevails here. We borrow on deficiency advances, Ways and Means, bills, &c.; the Government is a borrower in what are for them the lean months of the year, and pays back the money to the market when its revenue comes in. Would it be safe to try anything of the same kind in India with the Indian financial conditions; in other words, instead of budgetting as you now do to produce a balance at a time when it is at its lowest which is sufficient for all your needs, could you count upon borrowing in the lean times and repaying when your revenue comes in?—In other words, making very large material reductions in our permanent Treasury balances?

9054. Yes. Of course, as a necessary consequence of that, you would have to count—and that is really my question, could you count—upon borrowing for the months before your revenue came in?—This is one of the points on which I am afraid I have no instructions at all; but speaking from one's personal experience, I should feel very considerable doubt whether it would be possible to raise the large sum we want for Treasury purposes during what, from the Treasury point of view, are the lean months. We do in practice raise our annual loan in July, which I suppose is the beginning of the lean time, but we know from our own experience how difficult it is, first of all, to forecast the amount that we are likely to get by that loan; secondly, to get any substantial amount; and I fear that still greater difficulties would apply to raising money on temporary Bills. It must also be remembered that about that time of the year most of the local bodies are in the market. The Indian market is a narrow one essentially, and besides the Government borrowings you have now large and increasing borrowings by City Improvement Trusts, Port Trusts, Municipal Boards and all the rest. They all come in at the same time, and I think they take all the money off the market that is available. Your suggestion means, if I may just add another word, such a complete departure from our practice of being our own bankers, so to speak, that I am sure India would like a little time to consider it if it is going to be pressed.

9055. I was very anxious to express no opinion in the form my question took, but I agree, I may say at once, with your conclusion. You mentioned, in answering my question, the loan which the Government raises in India; you would hold, I suppose, as most of the other witnesses have done, that the lower India can keep its commitments in sterling in London, the better?—I entirely agree.

9056. It would follow from that that India's need for capital being so large, the more capital that can be raised in India the better?—Certainly; and the more money the Government can itself raise in India, the better from a political point of view, if from no other.

9057. Do you think that the Indian Government has raised as much in rupee loans in India in recent years as it might have been possible to raise?—There I have to express a personal opinion. I do not think they have. I think the Government of India could have raised substantially larger amounts on a good many occasions, without departing from the present system of borrowing. It has frequently been impressed upon us that we should go further, that instead of trying to add a crore or a crore and a half to our annual 3½ per cent. loan, we should have another form of loan which would probably be more popular and appeal more to the ordinary investor. That has been several times considered, and several times rejected. However opinions may differ on that point, I think we are all at one in feeling that the Government of India might have more if it took from the market all that the market could afford to give it.

9058. Do you think that it can make a substantial increase year in and year out in the amount that it raises in India?—I think on the average of years it could make a substantial increase. For instance, in several recent years we have only raised a crore and a half or two crores when I think we could have easily raised three or three and a half; we have done that at times; we have gone as far as four and a half without any serious calamity.

9059. I gather you do not think that you could fix any figure, say, 4½, and maintain it absolutely?—No, I think not. It depends so much on the condition of the market each year, which varies more than it does in any other country that I know of.

9060. There is another branch of this question of the balances. Apart from the balance which is held in London, it is sometimes suggested that you keep more in the local treasuries or reserve treasuries than is really required for your wants; what do you say to that?—As regards the reserve treasuries, the money that is stored there is an extraordinarily fluctuating amount. It is really a reservoir for the Secretary of State's drawings, and unless we know more definitely what the Secretary of State's drawings are likely to be, I doubt if we could at the moment reduce the reserve treasury holdings all the year round materially, but I quite agree we could reduce them during the busy season. As regards the other treasuries, I have seen some suggestions in the evidence given before this Commission, that, first of all, the treasuries are too numerous, and, secondly, that they are rather too well fed. Perhaps I might explain what our difficulty in that matter is. In the first place, we must have a treasury for each administrative district. That fixes the minimum figure, and the actual number of treasuries in excess of that I think is very small. Then we have got to consider what the duties of a treasury are in estimating the amount of money which has to be kept at it. If I may give a concrete example, taking the province that I know best myself, every district of about 2,000 or 3,000 square miles has a headquarters treasury, fed by

four or five detached sub-treasuries. The whole of the revenue of the district, which may amount to anything from five to twenty lakhs a year, is paid into this treasury. The income tax comes into it, but in ordinary country treasuries the income tax receipts are very small. The excise comes in, and the stamp duties come in; they are also relatively small. You have got nothing in the way of Customs; you have got no salt receipts, and you have got as a rule no railway receipts. The consequence is that the amount coming in is somewhat spasmodic as regards its dates and somewhat small as regards its amount. At that headquarters, apart from the district needs and apart from the maintenance of roads and staff, railways, schools, hospitals and all the rest of it, it may be that you have a large cantonment, and you have very large sums every month going out for the payment of the troops and for commissariat and transport. You may also have a station which is a favourite abode of old pensioners, and consequently you may have a very heavy pension list; or it may be an opium district in which the advances for the opium harvest are extremely high. The consequence of all this is that your net outgoings in this particular treasury at times are extremely high, and that, as an ordinary precaution, we have to keep at that treasury a very much larger balance than the year's total indicates to be necessary. When you multiply that by the large number of districts of this type that we have in India, I think you will find—and the calculations have been revised carefully and minutely a large number of times—that the total aggregate of the treasury balances in the districts is by no means excessive.

9061. You agree with what has been stated to us by other witnesses then, that the balances so kept are the result of actual experience, and are periodically revised with a view to their reduction, if reduction is possible?—That is so.

9062. Such revision will, of course, be necessary, but I understand you do not think in the future that any large reductions can safely be made in the aggregate?—On the contrary, I think the tendency will be to increase them. The Comptroller-General devotes a great deal of time and labour to this question of the movement of the funds in the most economical way, but the whole tendency since I have been associated with the finance department, has been to increase the balance.

9063. You have in some cases been able to close treasuries owing to the opening of banks?—We transfer the treasuries to the banks.

9064. In those cases, at any rate in the initial years, you have not saved anything as far as your balances are concerned?—No; on the contrary, we have had to guarantee in many cases a balance which was distinctly higher than we should require for our own working.

9065. I think it has been suggested that from those treasury balances you might make loans to the public; what do you say to that?—I am a little handicapped in answering that question, because the attitude of the Government of India has altered in the last few months. Perhaps I may explain first of all what was the theory until quite recently. The proposal to lend surplus treasury balances to the banks during the busy time is a comparatively old one. It has been put forward and accepted in times of crisis on more than one occasion; but the Government of India have always, until quite recently, stood out against any promise of loans to the public on ordinary occasions or upon any terms that might be considered at all favourable. The feeling that they had in the matter was that the loans would be undesirable and unhelpful. They felt that the Indian market is a somewhat narrow one, with cash at the bottom of all its transactions and comparatively little credit, and that all the marginal cash which is really necessary reaches the market through the exchange banks. What they felt mainly was that the Treasury balances are again very variable in quantity, and it is impossible to say in regard to any given year that they would be so high as to enable any very large and substantial loan to be given to the market. If that is so, it has always seemed to the Government of India that to establish a practice of loans to the market during the season of high balances would tend to encourage the banks to reduce *pro tanto* their own provision of funds, that is to say, there would not be an aggregate addition to the loanable capital in the market. Then if a bad year came and the Government of India withdrew its funds, or refused to lend its funds, the banks would find themselves in a tight position, and they would have to raise money on onerous terms at very short notice with possibly the result that the bank rate would go higher than before. The consequent feeling against the Government would be considerable, and it might generate a crisis which would be extremely undesirable. That, briefly, was the view that was taken until a few months ago, but since I started to come home I have received a draft copy of a despatch* which the Government of India have sent to the Secretary of State, and which probably may be before the Commission for all I know, or may be coming before the Commission, in which they propose as a tentative measure that during the ensuing busy season a loan up to, I think, three millions sterling should be given to the Presidency Banks.

9066. From the balances?—Yes.

9067. Supposing that this precedent of lending when it is convenient to the Government of India were to be followed in subsequent years, have you considered at all whether the most convenient source for the loans would be those treasury balances or the Paper Currency Reserve? I ask you in answering the question to put aside any objections arising out of the existing statutory regulations of the Paper Currency Reserve, and to assume that they might be altered if thought desirable?—I ask permission to give a personal view, because the matter has not been discussed yet fully by the Government of India. Personally, I dislike the idea of lending treasury balances, partly for the reasons that I have tried to indicate, and partly also because I think that the duty of wisely and judiciously disposing of balances is hardly a duty which a Government department can efficiently carry out. I think the time will come—it is bound to come on occasions—when the officer of the bureau responsible for the treatment of treasury balances will have an extremely difficult task before him. I do not speak about a year of famine, because I think in a year of famine the demand for money probably would not arise; but you might have a great rush of Council drawings, or you might have a run on our savings banks, which would mean very large issues from our balances; or you might find an extraordinarily opportune moment for heavy capital expenditure on productive works on advantageous terms. It would then be the duty of the responsible officer of the bureau to weigh these claims with the claims of the market, which might at the moment be particularly insistent, on a very limited margin of funds. I personally should very much dislike to be the person in that position. I should not feel that I had the necessary knowledge, and I do not think that anybody, except a banking corporation could carry on that work satisfactorily. If you turn to the other alternative, that is to say, loans from the Paper Currency Reserve under reasonable modifications of the statutory provisions, I have at the outset to say that the Government of India have objected also to that. They hold that the Paper Currency Reserve is a trust fund, and that as the law stands they are not justified in suggesting any other use of the money lying there except for the convertibility of the currency notes. They also doubt whether rupees would be available in a very busy season with heavy trade demands from the currency reserve without fresh coinage. They also feel that if the currency reserve did happen to be so permanently flush of money as to be equal to giving big loans to the market, the proper treatment would be to increase the element of permanent investment. That is the official view which has been taken as regards the Paper Currency Reserve, and I think the Government of India will probably say the same, although they have not

* *See* Appendix XXXVII., page 701.

discussed it. with regard to the scarcely separable process of an enlargement of the note issue by the issue of uncovered notes.

9068. Let me ask you to give your personal opinion here. If you have to choose between lending from the balances or lending from the Paper Currency Reserve, which would you object to least?—Personally, I should not have any serious objection to lending from the 'Paper' Currency Reserve. It seems to me that our reserve operations in the past have been almost too careful.

9069. Will you agree with this line of reasoning: The grievance of funds being locked up in the Government coffers is most felt when trade is busy, and when trade is busy the tendency on the whole must be for the note circulation to expand; it is not at that moment that notes will return for encashment. Of course you will understand that individual notes, and even large masses of notes, will always be coming in and going out, but on balance at times when trade is busy will not the note circulation be on the increase?—It ought to be.

9070. If that is so, then that moment when the market most needs relief will also be the time when the Paper Currency Reserve will be in the best position to give relief?—My memory is a little treacherous on the subject, but my recollection is that the volume of note circulation tends to diminish during the busy season in India on account of the heavy Council drawings.

9071. (*Mr. Gillan.*) I think what the Chairman has in his mind is the net circulation?—Then I should like to correct my answer. During the busy season, when Council bills are very active, and payment for those bills is taken from the reserve treasuries, a very large number of notes are taken from the treasury and presented in exchange for rupees, the notes are cancelled, and to that extent there is a reduction in the gross circulation. Otherwise I quite agree with the general proposition that during the busy season the net circulation ought to increase.

9072. (*Chairman.*) Before leaving the question of the balances finally, I would like to ask if you have any observation to make on the drawing of Council bills?—The Government of India are quite satisfied, and have been quite satisfied, about the system of drawing Council bills. I have been instructed to express the hope that the Secretary of State will, as far as possible, refrain from large drawings when the exchange drops below 1s. 4*d*. That is the official view held at the present moment, but personally I cannot press the matter, as I do not altogether agree with it. I think I shall be perfectly safe in saying that the Government of India would be glad to see, if possible, somewhat lower drawings when exchange is drooping; and certainly I do not think we ought to be in the position which, if my memory serves me, we were in once or twice several years ago, when we were selling bills on both sides simultaneously.

9073. I suppose I may take it that the Government of India will agree with those who have represented to the Secretary of State that the first consideration of the Secretary of State must be how to get over here the money that is required for Indian charges on this side?—Entirely, provided he does not go below the gold point.

9074. That is, he must not refrain altogether from buying when exchange is comparatively low, unless he can be perfectly certain that he will be able to cover the whole of his needs at a later time when exchange is high?—I quite agree.

9075. Now I pass to a different subject, the Gold Standard Reserve. Does the Government of India desire to make through you, or do you desire to make on its behalf or your own, any representations to this Commission as to the size of the Gold Standard Reserve, or as to its composition? Let us take its size first?—The Commission has before it, in the printed memoranda which the India Office submitted, a very voluminous correspondence between the Government of India and this Office in regard to the size, the composition, and the treatment of the Gold Standard Reserve.* What I have been asked to say is that there have been reasons in the past why the Government of India have taken strong exception to the dicta of the India Office on this subject. There is no desire whatever to rake up controversial matter, and a great deal of it has been laid for ever. The India Office have step by step come, we think, nearer our view, and we are extremely grateful to them for doing it, but we still stand very firmly on the sentiment—it is more than sentiment—on the certainty, on the conviction, that there can be no finality about the size—I take the size, as you wish me—of the Gold Standard Reserve. We believe that even the last decision of the Secretary of State, great improvement though it was on the previous decisions, is one that we shall still induce his Lordship, or his successors, to modify. We wish to see the Gold Standard Reserve built up without reference practically to any definite maximum. If a maximum were called for at the moment, we should probably say we should be glad to see 30 millions, but that can only be with reference to present conditions, and we should be very sorry to say that five or ten years hence a certain figure would be adequate.

9076. I want to make certain that I have your reasons for the views you have expressed as similar views have been expressed by other witnesses. Will you tell me why it is that you think it impossible at the present time, or in the highest degree undesirable, to fix anything as to the amount of the Gold Standard Reserve?—I am afraid I did not express myself very clearly if I suggested that. What I wished to imply was that although for the moment we should be glad to accept a figure of 30 millions, still we should not be prepared to regard that as a figure for eternity, so to speak.

9077. That comes, I think, to very much the same thing as I was putting—that you take 30 millions as a limit, because it is a limit which you have not nearly reached, but you think if you were drawing near to that, you would be very likely to ask the Secretary of State to reopen the question?—Yes. I will explain briefly how it appeals to us. Our experience has been extremely limited. We have had only this 1907–8 calamity. Whatever may be said about that, the fact remains indisputable that the 1907 famine, neither in its duration nor in its area, was anything exceptional. It was a limited famine, and you might easily conceive of a very much worse one. In the second place, we feel that the financial crisis which occurred in New York, and upset the markets is not, so far as we know, the last word in crises—that we might have something very much greater and very much nearer home, and it might be simultaneous with troubles in our own borders, such as war or civil disturbances. Then what we feel more than all that is that our experience of the new conditions only dates from 1908. Up to that time, whatever the outside world may have thought, it is, I believe, beyond question that the Secretary of State or the Government of India never went beyond a justification of the Gold Standard Reserve for any other purpose than the purpose of meeting the Secretary of State's home charges. In 1908–9 we committed ourselves to what appeared to us to be a new confession of faith; we probably had the faith all the time, but we had not confessed it in public. What we did then was to commit ourselves *contra mundum*, instead of *contra* home charges, so to speak. The consequence is that we really do not feel that we know enough of what that liability implies. I personally quite admit that the liability to maintain our standard has been somewhat unwisely overstated in certain quarters. I think, for instance, the statement that we ought to have enough to convert every rupee in India into gold is nonsense; to have enough gold to convert even 25 per cent. of all the rupees in India is probably sufficient. The matter, however, is conditioned by the whole question of the balance of trade. It seems to me, and to most of us who have thought over the matter, that the trade of India is a thing which is bound to increase. India is only at the beginning of its industrial development, its social improvements and everything else, and the probability is that both its exports and its imports will increase enormously, that the balance of trade will consequently constantly alter, and that to maintain

* Printed in Appendix V., page 109, Cd. 7070.

that balance of trade we ought to have a figure which I should consider no man wise if he attempted to forecast at present.

9078. If I rightly understand you, your view is that the size of the Gold Standard Reserve is not to be conditioned by the number of rupees circulating in India but rather by the necessities of external trade?—Yes, I personally think so.

9079. And therefore—I think you imply this in your answer—as the trade of India grows, so, though not necessarily in the same proportion, the Gold Standard Reserve should grow also?—I think as a broad and simple way of putting it, that is what we ought to stand by.

9080. So much for the size of the Gold Standard Reserve; now as to its composition. There have been some discussions in the past between the Government of India and the Home Government on that, but what we are most concerned with is the practical question of what ought to be done now?—There again, the view of the Government of India is no doubt familiar to the Commission. They have pressed from time to time for a much larger ingredient of what we call liquid gold. Although the Secretary of State has consented to holding five millions in that form, I think the Government of India would ask for, say 10 millions. The reasons for that have been stated over and over again. They are not entirely dependent on what we may call the quantitative theory of the currency, because he would be a very foolish man who attempted to press the quantitative theory too far. The Government of India have always felt that the position of strength at which they ought to aim is a position at which immediately on the occurrence of a crisis in exchange they should be able to release substantial and imposing amounts of actual gold at the same time as they are contracting large amounts of silver currency in India. They do feel that this operation, the release of gold, will not be achieved by selling securities and simply transferring gold from one hand to another. What they feel they ought to have is a large hidden reservoir of gold of their own which they can open when a crisis arises.

9081. As regards the location of the main portion of the reservoir or reserve, have you any objections to offer to the practice of holding it in London?—During the time of less confident relations between Calcutta and London I think the Government of India rather favoured the view of many critics in India that it would be a good thing to have the gold under our lock and key, so to speak, as when it went to London we did not exactly know what happened to it. That has all passed now, and personally I think there can be no question that the proper place to hold the gold is in London, where it is required for the settlement of international balances.

9082. You spoke of having gold to release in such a crisis; had you in mind then the release of gold in London and in London only, or were you thinking of releasing gold in India too?—I think it would be much more effectual to release it in London than in India.

9083. To such an extent as you had it in India, would you release it freely if such a crisis as 1907–8 arose again?—Yes.

9084. In that crisis there was some hesitation, I think, which may be easily explained, as it was due to the novelty of the circumstances, in freely using the resources which the Government had; I gather that in your opinion if a crisis arose again those resources should be used freely and at once to relieve the crisis?—I entirely agree.

9085. By a crisis do you mean a crisis in exchange?—I mean a crisis in exchange. Would it be permissible for me now to take advantage of your very kind offer to supplement your questions, in view of the very acute and as we feel undeserved criticisms to which we have always been exposed over this so-called mistake in 1907, to give a very brief narrative of what actually happened?

9086. Please do so?—The facts are that on the 14 November 1907—I am giving the exact dates as I think they are somewhat important—we had a telegraphic intimation from Bombay that the exchange banks there were asking for large supplies of gold. Our total supply of gold at the time was extremely low, and a considerable part of it was scattered about in the treasuries up-country from which it was very difficult to collect it at short notice. We consulted commercial opinion upon the subject, and although certain of the persons whom we consulted advised us to hand out all the gold that we had, others advised that the money was simply going to be utilised in connection with the speculations which were then going on in America, and that we should be thoroughly justified in maintaining the funds under our own control and for our own purposes. On the 19th November, before the Government of India had come to any decision on the question, the same bankers applied for telegraphic transfers on London at a fixed rate. We felt at the time—and the position was somewhat different from what it is now—that if telegraphic transfers were to be given we should only do so through the Paper Currency Reserve, and consequently with the consent of the Secretary of State, whose consent, of course, in any case would have been necessary. We accordingly stated the facts to the Secretary of State in a telegram of the 19th November. On the 20th November the Secretary of State wired to us instructions to refuse gold to the banks. On the 21st of the same month, that is, on the following day, he wired out again and said that perhaps freer issues of gold might not be undesirable, even if the banks were making big profits out of them. On the 25th November, the question then being under daily discussion with the bankers in India, the Bank of Bombay advised our sending telegraphic transfers at 1s. $3\frac{27}{32}d.$, and the representatives of the exchange banks the same afternoon asked us to do nothing of the kind, but to let them have gold in India. So that at that moment there seemed to us to be no very clear view of either the needs of the market or their wishes. We were perfectly prepared to let gold out if it was going to assist the position. On the 27th we again explained the whole position to the Secretary of State and told him that we had got a million of gold available for issue and that we were prepared to issue it, but that we felt we could not promise anything in the nature of telegraphic transfers unless he was prepared to maintain the redemption of such drawings and we did not know what his capacity in that respect was. On the following day he wired back to us asking us, if we agreed, to let the banks know that we should issue telegraphic transfers on him at 1s. $3\frac{27}{32}d.$ We did so at once, and the episode was over.

9087. The exact account you have given of what took place in those years is very interesting and useful, but I think the important question is to see what is the lesson of those years for the future. I understand you to have told me that in your opinion the primary and all-important object for which the Gold Standard Reserve exists is to maintain the par of exchange?—That is so.

9088. And that if a crisis arises it should be used freely for that purpose?—Yes.

9089. Then the question arises, in so far as you have gold in India at such a moment, how could it be best used? In your opinion should the Government give it out freely in India, or should they not give it out in India but ship it to London and sell transfers against it?—The gold in India to which I have been referring in the history which I have just detailed, and I take it the gold to which you also refer, would be gold in the Paper Currency Reserve, not gold in the Gold Standard Reserve?

9090. I think there is no gold in the Gold Standard Reserve in India, is there?—There is occasionally, but not as a practice. I only mentioned that because we were talking about the Gold Standard Reserve in the first instance. However, the position regarding other gold, that is, gold in the Paper Currency Reserve or gold in the Treasury Balances, is, I think, that it would dribble away very rapidly before the actual occurrence of an exchange crisis, but that when the exchange crisis comes we should freely give gold in India in so far as it is asked for and required. I should not contemplate a situation in which it would be necessary to ship gold on Government account from here, because

one would hope that the Gold Standard Reserve and the Paper Currency Reserve gold under the Secretary's of State's control would be brought into play.

9091. And would be sufficient?—And would be sufficient.

9092. Would you anticipate that gold given out in India would would have much effect upon exchange?—There experience again is somewhat limited. We know that particularly during the crisis in 1908, although a very large amount of gold dribbled out of the treasury, a very small amount of gold was actually exported. I would not personally draw too wide a deduction from that somewhat limited experience. I am disposed to think that although the so-called waistcoat-pocket gold is not in the first instance an important factor in supporting exchange, still the position might arrive in India at which the gold in circulation, or still more so the gold in hoards, would become a very valuable instrument in assisting us against an exchange crisis: that may be in the far-distant future, but I think it will come in time.

9093. In so far as that gold is in hoards, what circumstances do you think would bring it out in great quantities?—The most obvious circumstance I think would be a scarcity.

9094. A scarcity of what—that is my point?—I mean a scarcity of food.

9095. But not a scarcity of gold?—No. Before going on with that question, however, I ought to differentiate between gold bullion and sovereigns; I think there is a possibility of a little confusion of thought in that respect. When I said that a shortage of food would bring gold out, what I implied was that I think the people would produce their ornaments, their gold bullion and their hoards, in very large quantities; I did not mean to suggest that rich people, who had stored up large quantities of sovereigns, would produce them in those times; I think it is probable they would not, because sovereigns are then at a high premium.

9096. When the sovereign goes to a premium, there is a tendency rather to stick to their sovereigns than to yield them up?—Quite so.

9097. Do you think there are any circumstances, except the pressure of actual need by famine, in which gold hoarded would come out in large quantities?—In our present position, I do not see any other circumstances. As I say, I think in the future, when the country is more saturated with gold than it is at present, gold would be bound to come out to pay the international debts, if everything else fails; but that is not at all likely to happen so long as the Government hold a sufficient reserve of gold in their balances.

9098. Do you think there should be, from the point of view of the Indian Government, any attempt to frame statutory regulations for the management of the Gold Standard Reserve?—I think the Indian Government would have no objection to a statutory description, if I may so put it, of the reserve and of its purpose, but neither the Indian Government nor any of its members have ever attempted to formulate, to draft if I may so say, an Act on the subject. We feel that the Act would be an uncommonly short one. The only general principle which we should like to see laid down under the authority of Parliament is that the reserve is to be, until it reaches a definite figure, exclusively used for the purpose of supporting exchange, and not to be turned aside for buying rolling stock or the like. Apart from that, the other statutory provisions we contemplate would be simply a wide power to the Secretary of State for making rules for his own guidance. It is not a point on which I think the Government has any strong sentiment one way or the other.

9099. Now I turn to the paper currency reserve; have you any observations to make about the strength of the silver holding?—There again, as the Commission are aware, there has been a considerable amount of recent discussion and correspondence. The Government of India has fully accepted the lines of an extremely careful memorandum* which I believe Mr. Abrahams drafted, in which it was advised that we should organise our coinage operations so as to hold 24 crores of silver in the paper currency reserve on the 1st October, the idea being to ensure that we should have 17½ crores on the 1st of the following April in each year. As I say, the Government of India accepted this proposal, but the scheme has since been somewhat still more developed into a series of definite standards. What I understand the Government of India now aim at is to have 24 crores in the reserve on the 1st November, and so to regulate their coinage that in a year of heavy absorption there would be 18 crores left in the reserve on the 1st May, and I think 24 crores on the same date in a normal year. They have also formulated standards which will enable the coinage to be undertaken much more regularly and almost automatically, but liable, of course, to stoppage in the event of the conditions suddenly altering in the course of the year. It would probably be inexpedient for me to give the dates on which they propose to buy silver for these purposes. The great point is that they have so arranged their programme as to give timely warning to the Secretary of State, whom they leave to do the buying.

9100. I gather from what you have said that the Government of India is taking steps to get its silver purchased more regularly?—More regularly with reference to a more regular coinage programme.

9101. In the hope, perhaps, that it may not be forced to purchase such large quantities at a given time, as occurred just recently?—So as not to purchase at such short notice, I should say.

9102. You have already, in answer to questions of mine, said something about loans from the Paper Currency Reserve; I should like to ask you now in that connection whether you have considered at all whether it would be safe, with the experience that you now have of Indian currency, to take powers to increase the fiduciary portion of the Paper Currency Reserve?—Do you mean by that the portion which is invested permanently?

9103. I would prefer to say the portion which is invested. I will explain that, if it is not quite clear to you. The whole of the fiduciary portion need not be invested permanently; it might, if the Paper Currency Reserve were used for making temporary loans to the public, be invested temporarily, but it would be invested?—I was not presuming to criticise your statement of the case. I was only on the point of explaining that what we understand by what we very often describe in India as the fiduciary portion is a little different from the interpretation of the same phrase in England. As the law stands, we have only one fiduciary issue in the sense of an issue against invested securities, and the securities are, as you know, of a permanent character. I take it you would not object to my considering a position in which the present bonds of the law were relaxed.

9104. No; I am asking really whether you think the time has come for an amendment of the law?—I do think that the time has come. I quite accept the sentiment of the Government of India that it is a very important trust, and that public opinion would be very much shocked if the Government of India, without full justification and strong authorisation, were to alter the reserve system. But if a body such as this Commission, with all its authority, were to recommend an alteration in the law, I think that there would be a very strong backing in India. Personally, as I said before, I think we have been almost too careful and that there ought to be no difficulty in educating the public mind to a considerable change. If I may put it in figures, as a very rough suggestion, I should be glad to see the reserve held somewhat in this style: I should like to see about 40 per cent. in rupees to secure the prompt convertibility of the notes which are likely to be brought in for conversion. That implies, I think, that the facilities for conversion will be considerably greater than they are at present. I should like to see, say, 20 per cent. held in gold, available for the prompt purchase of silver to restore the rupees in the event of a run upon them. I think it would be quite sufficient

* Cd. 7070, page 188.

to have 30 per cent. of permanent securities as an ultimate reserve against a very grave collapse in the note circulation. That would leave 10 per cent. of the total reserve, which I should have no hesitation in leaving free to the market; that is to say, as you explained, in the form of temporary investments against good security.

9105. It follows, I think, from what you have said, that you favour such a change in the law as would make the fiduciary issue a proportion of the whole, rather than, as it is at present, a fixed sum, with no reference to the present circulation of notes?—I used these percentages merely for the sake of simplicity. I think that a law which defined the ingredients of reserve in terms of definite proportions might be a little difficult to work at times, but I quite agree with the general principle that the development of the reserve should be in rough proportion to the note circulation.

9106. Now I want to turn to the question of the gold coinage. What, briefly, is your view upon that subject? Perhaps I ought to define my question more exactly, and so I begin by asking, Are you in favour of the opening of a mint for the coinage of gold in India?—I am. I ought to say the Government of India has expressed itself in favour of that view.

9107. Not very strongly, I think?—I think their position is that it is not a matter of the first importance in currency reform, but it is a matter which they would be glad to see fully considered, and that it would be consonant with a very strong body of Indian opinion if a concession in that direction could be given.

9108. I suppose that opinion is really rather dependent upon the view expressed by some witnesses that it is desirable largely to increase the amount of gold in circulation in India. Am I right in thinking that those who advocate the opening of a mint for the coinage of gold in India hope that one of its effects, at any rate, will be to popularise the circulation of gold coinage in India?—I think that is undoubtedly the case; or, perhaps, if I may put it in some different words, to substitute the genuine circulation for the concealment of gold in hoards. That I think is the most prominent consideration in their minds.

9109. In what way do you think that the opening of a gold mint would induce the tender for coinage of gold which is now hoarded?—I think it would be regarded as a very great convenience by the people to be in a position to have their gold holdings, so to speak, hall-marked. At the present moment they receive a very large number of sovereigns, and they have no idea where they come from. I am talking about the ordinary masses of the people: they have very little understanding that these sovereigns represent a standard gold coin of Imperial value. All that they know is that they are tokens of a certain fine touch and monetary worth, and that when they can get a sufficient number of them and melt them down to form ornaments for themselves and bars for their hoarding, they have got something to which a definite value attaches. There is no facility for the reverse process; there is nothing which will enable them to bring out their hoards, bring out their bars, and bring out their ornaments, and have them converted into coin of the realm.

9110. That coin of the realm being — ? — The sovereign. The result is that they have not yet become educated to the sovereign. It is quite true that a very large number of sovereigns do come into the country, but you have seen the statistics indicating the extent to which they disappear, and the extent to which they remain in circulation*. What we should like to see would be the introduction of the sovereign as a distinctively Indian coin. When I speak of a distinctively Indian coin, I do not mean a coin with an Indian device, but a coin made in India and known to the people as being available and as being manufacturable, so to speak, in India. We look upon that as a definite step towards the education of the people to a better system of currency than they have at present.

9111. If, under the present circumstances, a man is driven by his needs or desires to produce his hoards, has he any difficulty in turning them into sovereigns?—On terms, no; but he very often has to pay a very great deal more than he ought to.

9112. He goes to a middle man, who charges him a very high commission?—Yes.

9113. Do you think it would be an advantage if the Indian Government notified that it was ready to receive gold bullion at the mints in exchange, not for sovereigns, but for rupees or notes?—I am afraid I have not considered that question. We used to receive gold bullion, but the amount produced was so small that we cancelled the notification.

9114. It occurred to me, and I think you have to a certain extent supported the idea, that this gold is not likely to come out of the hoards in large quantities, except under pressure of famine?—I think that is so.

9115. Famine, however, means bad trade, bad trade means weak exchange, and it is in a moment of weak exchange that the Government needs the gold most for the support of exchange, and just in that moment it might get the gold from these hoards; would that be facilitated by a notification that the Government was ready to exchange gold bullion for notes and rupees?—Yes, I think it would. Of course, the operation would be a somewhat expensive one, because in order to obtain any advantage from the bullion which would come to us in this way, under present conditions we should have to export it to London.

9116. It might, therefore, be necessary to fix its price in the first place in reference to the fineness of the gold, and, in the second place, at such a sum as allowed for the cost of the export to London—that is, the freight and so on?—Yes; in other words, we should have to assay and refine.

9117. You would have to assay, not refine?—No; that is so—not to refine.

9118. Now, in the circumstances which I am contemplating, would not London be the place where you would need that gold?—Quite so.

9119. Do you think, under those circumstances, there would be any advantage in perhaps reverting to the cancelled notification of the Government of India?—Yes, I should see no objection to that.

9120. I gather from what you have told me, that you feel that it is desirable to increase the gold in circulation in India?—Yes; I do feel that.

9121. What moves you chiefly thereto, I understand, is the feeling that a very much larger amount of gold in circulation in India would be a real support to exchange?—I think it would in time be a support to exchange, but the motives which underlie the conviction that I have on the subject are somewhat different. As I tried to put it, I look upon the increased circulation of gold, the greater familiarity of the people with gold, as an educative measure. I do not look upon it as an end in itself. I think that gold will be the line through which we will in India arrive at a more economical form of currency by a more economical treatment of the people's wealth and resources.

9122. In itself, gold is not an economical form of currency, is it?—I quite admit that.

9123. Is it your view that by popularising gold coinage, you would really get at the hoards?—May I put it this way? It is difficult for anyone who has not actually lived among the people of India to realise the extraordinary absence of all forms of banking facilities, of all forms of systematic and economical credit, of all inducements to thrift and saving, that there is in the country. We in the Western countries have, I think, been educated very much by the banking system, by the use of paper, by the use of cheques, and all that, to a greater appreciation of the value of money. All that is absent in India at the present moment. It is almost incredible the extent to which it is absent. You see it present to a certain extent in the towns among the educated people and among the rich, but among 99 per cent. of the people there is not only blank ignorance of all these material tendencies towards moral improvement, but a certain amount of fear of them. I cannot help feeling that we can only get rid of this fear, this timidity, this ignorance, by teaching the people better, and what I

* *See* Reports of the Paper Currency Dept. for 1910-1, 1911-2, and 1912-3, published by Government Press, Calcutta.

may call more responsible, forms of currency. At the present moment the sovereign hardly fulfills that object. The sovereign, as I say, is a thing which they know very little about, except as a counter which comes in to be melted. If they had the sovereign in larger circulation, if it were a domestic utensil so to speak with them much more than it is at present, I feel that that would be a step towards better banking, better management of their wealth, and greater economy in every way. I may, perhaps, give you an example of what I mean, although it is a very small and very unimportant point. From time to time in the villages I have been asked by the people whether there was any chance of the sovereign being introduced by the Government. They do not realise at the present moment that they are Government stock. They say, and the women of the family in particular say, the sovereign is a much better thing to have than rupees; "when my husband goes to a fair with a few rupees tied up in his waistband, he never brings any of them back, but if he goes with a sovereign, he thinks twice before he breaks it." That is a small and trivial illustration of what I mean.

9124. Now, speaking of it merely as a matter of currency, and apart from the predilections of any particular people for the moment, a paper currency, provided it is a sound one, is a more economical one than a gold currency?—I quite agree that it is a more economical one, but please may I add that I could not agree that it is a more suitable one at the present moment for India.

9125. That is quite a different question, is it not?—Yes.

9126. The expansion of the note currency in India has been very remarkable, has it not?—Very.

9127. That, perhaps, may be accounted for in part by the increased facilities which have been given for the encashment of notes?—Yes.

9128. I think it must also be taken to indicate a growing popularity and understanding of the note over large portions of India?—I think it does, but I think it implies a much larger confidence in the note.

9129. Gold is preferred in certain portions of India, but I think over comparatively small areas, according to the evidence we have received?—The preference for gold fluctuates very considerably; but I think you may take it as a much more general proposition that the preference for notes is restricted to the towns and busy centres. The difficulty which we have always felt about the note system is that, do what we can—and what we have done has been attended with considerable success—to increase the note circulation, we are still only *en rapport* with the commercial classes. We do not, and cannot in the present circumstances, expect notes to get down amongst the agricultural classes, the artisans, the villagers and all the rest of them. There are, for instance, the dangers attaching to paper money. Living as they do, the large mass of these people, in poor homes, with constant risk of floods, fires and destructive insects, it is impossible that they will take the risk of keeping their little stocks in notes. There is also a great danger among the illiterate populace of their being taken in by forgeries. The note forgeries are extraordinarily clever and abundant, and every outbreak of forgery shakes the confidence of the villagers still more in the paper circulation. That is really at the back of my mind when I am trying to impress upon the Commission the great value of the sovereign as an educative instrument. It is not likely to be washed away, it does not get burnt, it does not get eaten by white ants, and it is not so easily forged. A villager will always tell the difference between a good coin and a bad one, but he cannot tell the difference between a good note and a bad one. But the two processes must go on, the note circulation steadily expanding among the commercial population, and the sovereign going in this way among the villagers, who, after all, form the great mass of the people.

9130. I think I understand your view, which is rather a different one, I should add, from that which has been put to us by other witnesses; but it is a very interesting one. Now that I do understand it, I want to come back to the question of the gold mint. I see now your reason for desiring to popularise the sovereign—that it would bring home to the people of India in a way that is not brought home to them now, that it is an actual coin of the Government of India. That correctly states your view, does it?—Yes.

9131. Accepting all that you have said for the purposes of my further question, may I ask you this: assume that the Government of India took your view and acted upon it, would you feel it incumbent upon you, in pursuit of that view, to press the circulation of the sovereign in preference to other forms of currency, or would you merely think it desirable to afford the people every facility for getting sovereigns if they wanted them and for turning their bullion into sovereigns?—I should have absolutely free trade in that. If they wished for sovereigns they should have them, but I should do nothing in the way of forcing sovereigns upon them.

9132. I rather gather from what you have said that you yourself would not be disposed to make any special effort to increase the circulation of the notes in preference to the circulation of gold?—Preferentially, so to speak?

9133. Yes. For instance, one thing that might be done would be to instruct your officers, where no special form of currency was asked for, always to tender notes; but that, if gold was demanded, they were to give gold?—I do not think I should press them to express to the customers any indication of their own preference in the matter.

9134. You attach a great importance to the gold standard reserve?—I do.

9135. To its maintenance and to its growth?—Yes.

9136. That growth is dependent on the token coinage, is it not, under present conditions?—Yes, in the sense that the further expansion of the rupee, the profits on the coinage of which go into the gold standard reserve, thereby increases it.

9137. And, except in so far as there is interest from the securities, that is the only source of addition to the gold standard reserve?—That is at present the only source.

9138. Under those circumstances, do you think that any loss of your power to maintain the stability of exchange by checking the growth of the gold standard reserve would be compensated by an increased holding of gold by the people? I am now putting the question not from the point of view of the currency, but from the point of view of the maintenance of the par value of the rupee for exchange purposes. The gold standard reserve is built up by the profits of the rupee coinage, but if the circulation of gold rather largely increases that may be at the expense of notes or rupees or both, or at the expense of the growth of this reserve?—At the expense of the growth.

9139. If it causes a reduction in the growth of the number of rupees it checks the growth of the gold standard reserve?—Yes.

9140. Would that loss in the gold standard reserve, in your opinion, be compensated by the stability given by the increased gold in circulation?—You have put a rather extreme case to me, and I find some difficulty in answering, because I very much doubt whether, whatever encouragement we might give to gold or to notes, or to both, we should still reach the limit of our rupee currency. I think that even if the people take much more than they have been doing, or much more than we expect in the near future of those other forms of currency, India is still far from being saturated with rupees.

9141. I put to you another question, but following the same line of thought. Which is most useful to you for the maintenance of exchange in a crisis—a million sovereigns in the gold standard reserve in London, or a million sovereigns in circulation in India?—The former, undoubtedly.

9142. If you were dealing with the problem of currency merely as an adjunct of the problem of exchange, you would encourage the circulation of rupees and notes rather than the circulation of gold?—From the point of view of economy of currency?

9143. Yes, and from the point of view of building up the gold standard reserve?—Yes, quite so.

9144. Your reason for desiring the increased circulation of gold is one you have already given to me, that it has an educational effect upon the people?—Very largely, yes.

9145. And you hope that it would gradually lead to a change in their habits in the matter of hoarding?—Quite so. It still in the end means a very great increase of true currency.

9146. Now I come to a very big question, and I propose to deal with it very shortly; it is the question of a State or central bank. Have the Government of India formed definite views of their own on that question, one way or the other, which they desire you to lay before us?—During the whole of the six years that I was working with the Government of India this question never came under their consideration at all, and I think their attitude during that period might be perfectly fairly described as regarding the problem as for the time being outside practical politics. Of course, the Commission is familiar with the older story of the 1900 discussion,* and the capital résumé which Mr. Brunyate published of the previous discussions,† and also of the considerations‡ which led Sir Edward Law to advise the Government of India to drop it. I need not go into all that; it is all past history. In recent years the Government have never really considered the matter at all, and I may say that I do not think they had any warning of the importance which this Commission attached to the subject. It is only within the last few days, I may almost say, that I have received privately from Sir William Meyer a note, compiled by him after he had seen the memorandum§ which Mr. Abrahams laid before you. That note, he was very careful to tell me, expressed only his personal views, and it has never yet been before the Viceroy or his Council. I feel sure that before the Government of India would express any opinion, either through me or otherwise, they would ask for an opportunity of the fullest consultation with commercial opinion in India, and they would also like to realise what action the Secretary of State would be prepared to take in relation to anything in the nature of a State or central bank if the proposal commended itself to him. I can give you an epitome of Sir William Meyer's views; he authorised me, if I was desired, to do so.

9147. I think the Commission would certainly be glad to have his views?—It being understood, of course, that they are personal to him?

9148. Yes?—Sir William Meyer's note, which I have not had the opportunity of discussing with him personally, proceeds, it seems to me, on one interpretation, which, for all I know, may be a somewhat limited interpretation, of the thesis. In your first question on the subject you referred to a State or central bank. That opens a somewhat wide field, and it may cover very different types of institutions. Sir William Meyer was thinking about what we used to think about in olden days—an amalgamation of the three Presidency banks, which probably would be more properly described as a central than as a State bank. He, in his note, proceeds to examine the difficulties which he foresees, which may be briefly summarised under, I think, four heads. The first is the difficulty of interprovincial jealousies and banking rivalries, which, of course, is perfectly familiar to the Commission. The second is the difficulty of maintaining the dividends of the existing shareholders of the three banks. The third is the danger of a sharp conflict of views between India and London on the assumption that the amalgamated bank has a London house, and the feeling that this conflict may drag in the Secretary of State and the Government of India, as well as the actual officials of the bank. The fourth is the very great difficulty of obtaining a competent body of directors who would possess an All-India experience and who would possess sufficient leisure to undertake the management of a greatly diffused institution of this sort. Sir William Meyer went on to say if—and it is a large "if"—you overcame all these difficulties, then he would welcome the bank for various reasons. One reason is, that it would go far to mitigate what I may call the political objections to the method in which the whole banking of the Indian Government is managed by a close bureaucratic corporation, and it would also, at the same time, meet the commercial sentiment of what is right and fitting. Another advantage in the bank is that it would relieve the officers of Government, who very often have neither the training nor experience necessary for this sort of work, of obligations and responsibilities for which they themselves must recognise that they are not fully equipped. The third is the possibility, again assuming a London house, that by borrowing in London this amalgamated bank would give a larger supply of loan capital to India. Finally, I think he felt that a bank established on this much broader basis, especially if it was entrusted with a larger measure of Government funds, could very well be required to develop banking facilities in India generally. He then went on to explain what he would hand over to the bank. He would hand over the greater part of the Treasury balances—when I say the greater part I have no doubt he had in view the large amount of money which would still be necessary to work the district treasuries, as I attempted to describe, in areas where there would be no branches of the bank, for of course we cannot expect the Bank to open many hundred branches straight away. Then he would hand over the paper currency reserve and practically the control of the note circulation. He would not entrust them with the gold standard reserve, although he would be prepared to invite their advice and assistance in the management of it. He would expect them to do the buying of silver and the initiation of coinage when it seemed to them that fresh coinage was necessary. He would also contemplate their undertaking exchange and banking work in London, which of course underlies a great deal of what I have already tried to explain is his view.

9149. Is the exchange and banking business in London not merely to extend to the Indian Government's requirements, but to be generally on account of the public?—I think so, but I am not sure that I should be correct in making a definite statement of his views on that point. I need hardly point out that this is a very different proposition from such a constitution as might be drafted for a State bank proper.

9150. But it does raise the one question that I want to put to you on this subject—I daresay some of my colleagues will desire to put others. The only question I really want to put to you on the statement you have made on this subject is this: assuming a bank of the character which you have described, with substantially the powers and responsibilities which you have described, could the Indian Government entrust so much to them without being represented on its board?—I think not. I think it would require a strong representation.

9151. One of the great advantages of such a bank in the eyes of some of the advocates of it who have come before us, has been the relief it would bring to the Indian Government from financial responsibilities. If the Indian Government were strongly represented, as you suggest, on the board, do you think that they could divest themselves of responsibility for the bank's proceedings?—I do not at all think so. I think the responsibility would be almost as great, only it would be worked through a different channel.

9152. Do you think, if anything went wrong and through unfortunate management the bank failed, that it would be regarded in India as the failure of a private institution or as the failure of the Government?—I think it would be a public calamity, and the Government would have to intervene with its whole resources.

9153. Perhaps the Government would have to bear, justly or unjustly, a large share of the blame?—Yes, quite possibly.

9154. When you, in your answers, speak of the Government of India being responsible, am I right in thinking that that implies, under the constitution of the Indian Empire, that in the last resort the Secretary of State in Council is responsible?—Undoubtedly.

* *See* Appendix XV., page 355, Cd. 7071.

† *See* Chapter VIII. of "An Account of the Presidency Banks" published by the Government Press, Calcutta, 1900.

‡ *See* Appendix XV., pp. 428–38, Cd. 7071.

§ *See* Appendix XIV., page 339, Cd. 7071.

9155. In finance in particular his authority is very direct and paramount?—Yes.

9156. So that in the last resort the affairs of this bank might be very naturally the subject of discussion in our Parliament here?—I should think that extremely probable.

9157. That being the authority which in the last resort controls the Secretary of State in Council?—Yes.

9158. (*Lord Faber.*) With regard to the large balances which you have had in London for two or three years past, they have not been unprofitable, have they?—No.

9159. For one thing you have been able to lend the money out at very high rates, lately, at any rate, and over the whole of the last three years at rates which we have not seen before in England; and, secondly, instead of raising loans here, as you generally do, you have taken money out of these balances whenever you wanted it?—Quite so.

9160. So that in both ways you have made good use of a great part of your balances?—We regard the use of the balances for the reduction of loans as essentially proper and justifiable.

9161. If you had come for a new loan, for instance, last February, you would have had to pay nearly 4 per cent., but now you are using your own balances. Do I understand rightly, from what some of our witnesses have told us, that part of these big balances has arisen because railway construction did not go on as fast as you expected, and you could not get delivery of the necessary material?—The failure of the railways to push their construction programme to the extent to which they had estimated is undoubtedly one of the large factors in these high balances. The failure of deliveries is undoubtedly an ingredient in these lapses, but I should not like to put it as the most important.

9162. Have you ever thought of having a fixed committee in India to deal with railway questions solely and wholly, and to make a yearly programme for the building of new railways, which are so very important in India and which pay so very well?—We have both those. We have a railway board, which ought to, and which does, consider the whole finance of railways, and we have not only an annual programme, but we have what is known as a triennial programme of capital expenditure on railways. I quite agree with what is probably underlying your question—that the system is capable of improvement.

9163. It is so obvious that it is a very profitable source of revenue to India. You can borrow, even to-day for instance, at 4 per cent. here, and perhaps in a year or two considerably cheaper, and you will be able to employ that money to a great deal more advantage if the railways continue to make the progress which they are making at present in the way of dividends?—Of course it is arguable that the law of diminishing returns will set in in time, even in railways, but at the present moment I entirely agree that we could advantageously utilise more capital on the railways, although, what is even more important than that, is the desirability of having our capital more constant and more and better foreseen.

9164. That is what was in my mind—that you should apportion so much year by year, and that it should go on always as a matter of course unless something entirely unforeseen arises, such as a famine?—That opens up a very wide question which has never been out of the minds of the Government of India, and in regard to which a good many of us have hopes that the Government of India will depart from the attitude that it has taken up in regard to conditioning the railway programme strictly by the finance of the particular year. It is not at all inconceivable that we may have something in the nature of an equalisation fund, if I may so put it, by which the amount available for railways will never in any ordinary conceivable circumstances fall short of a definite minimum.

9165. With regard to the change of the date of the Budget, you interested us very much by putting forward an argument we had not had placed before us: that was with regard to the district officer who actually gathers in the land-tax, and who, therefore, as you very justly say, is one of the most important officers connected with the Budget. As I understand it, this officer now starts his Budget for the year in October?—Even earlier; I think he starts in September.

9166. I am taking October because the date that we had in our minds was that the Budget year should begin in October. Practically the most important officer does begin in October now when the Budget comes out on the 1st March?—Yes.

9167. And you would rather have it like that than alter the officer's business to the 1st March and the budget to the 1st October?—Yes.

9168. One question about banks and loans to banks. The Government have signified a desire to help the banks in India by making loans to them; I suppose they are loans with security?—Yes, they would be loans on defined security.

9169. What security can the banks give? Is there a large supply of securities held by banks there which they can put up with the Government?—The Presidency banks—and I think the proposal is to lend to them alone—generally hold a very considerable reserve of Government paper.

9170. What we should call gilt-edged stock?—Yes.

9171. I think you said that the more gold you had in India the more useful it would be in times of crisis. Is that your view?—I would not put it in that quantitative way. What I feel is that a large gold circulation, and a genuine gold circulation, and a rapid gold circulation, so to speak, will ultimately be helpful in times of crisis.

9172. I will put a question on another very interesting subject, which perhaps you will be able to answer: do you think that the importing of gold in the shape of bars leads to the hoarding of gold more than it would if sovereigns were imported into India, instead of gold bars; in other words, do you think gold bars create hoarding more than sovereigns do?—I am afraid I am hardly able to answer the question, as I have not given it much consideration. The trouble is that sovereigns are so immediately converted into gold bars that the two things are almost indistinguishable.

9173. On the other hand, I suppose a man would get rid of a sovereign more easily in India than he would get rid of a gold bar?—Yes, he would always get a defined price for it.

9174. With regard to a central bank or a Government bank, we will take the Government bank, if you please. Do you think it advisable or necessary for such a bank to have any shareholders except the Government? Do you think that the interests of the shareholders conflict with the nation's interests when dealt with by the same hand?—I think in theory one would be very glad to dispense with the shareholders, but the difficulty in India would be the absorption of the three Presidency banks.

9175. I have that in mind, but that does not affect the argument. Would you take in shareholders because you do not want to act harshly towards the Presidency banks?—Quite so.

9176. If you came to an India where there were no banks, would you, in starting a central bank, have shareholders or not?—I think not, if I had a *tabula rasa*, so to speak.

9177. Is it because you think, and rightly so, that some attention should be paid to the claims of the Presidency banks for very good work done in the past, and not because of the merits of the new bank in question?—I feel that there is no room for a new State bank superimposed on the Presidency banks. I think that even a State bank would have to consider the absorption of the Presidency banks. That being so, we should have a large body of shareholders in India and in Europe who have been accustomed to very substantial dividends in the past, and I think it would be extremely hard to throw their money back at them.

9178. Would it be better, perhaps, to buy out the shareholders at the price of the day? What I am trying to get at is your opinion as to which is the best bank for the future of the country—one with shareholders or one without? This is a new point, and I have not heard it argued before, but evidently it is arguable; I have in mind the Bank of England

here?—I should like to have a little more time to think the subject over before answering you on that important point.

9179. (*Sir Ernest Cable.*) You said that from time to time the Government had been considering various forms of loans in order to raise more money and increase the amount of capital available for railway and other productive works: were you alluding then to the proposal to issue 4 per cent. railway bonds?—I had those in mind.

9180. I think you said it was found to be an impracticable suggestion?—What I had in mind was that the proposal for 4 per cent. bonds, or for what has also been suggested, a 3½ per cent. security, with a division of profits above a certain limit, has been felt to be in some ways desirable, but otherwise likely to interfere with other borrowers. The main reason, I think, why the Government of India have never committed themselves as a body to another form of borrowing, apart from the possibility of that form being a more expensive one than the present, is that it would immediately bring them into conflict with the local bodies, the port trusts and the like, who at present have a definite 4 per cent. market of their own. We have always felt that it would be very unfair for the Government, with its greater security, greater prestige and all that, to come into the market with something which would be practically parallel, as far as profits and terms go, to the propositions which these bodies have to put upon the market.

9181. I see your point, but of course the great trouble is that the Government of India constantly need more funds which they could employ with great advantage to the country. The problem has become a commercial proposition which ought to be tackled by the Government?—I quite agree.

9182. Has it occurred to the Government to improve the market for Government paper by issuing terminable loans?—I do not think that has been considered. I saw that it was referred to in the evidence, but I do not think the Government of India have ever taken up that question.

9183. That is a suggestion which it is thought might very likely popularise the Government loans and lead to larger sums being brought out; do you think that would be so?—As you know, the Government of India has not been at all remiss in trying to get ideas for increasing the popularity of their rupee loan system. Up to the present, it has devoted itself very largely to making the present paper more marketable, more convertible, if I may say so. As you know very well, the difficulties in the way of the treatment of our paper at the public debt offices have in the past been very considerable, but we are steadily disposing of those. Proposals, for instance, have been made for having debenture bonds payable to bearer, instead of the present promissory note system. An infinite variety of proposals has been made; but, as I say, a big thing like the suggestion for a second defined type of Government securities has always been looked at with a certain amount of shyness, because it was felt that we should thereby come into competition with other bodies, whom we have always endeavoured to give their fair share in the market.

9184. You mentioned just now, but it was not known to me, that there is already a triennial programme for railways?—That is so. Perhaps I might explain what I mean by a triennial programme. Some years after Mr. Robertson's enquiry,* the difficulties which are present, I take it, in the minds of the Commission in regard to the uncertainty of the provision of railway capital, were attempted to be met under the Secretary of State's instructions by the provision for a definite programme, both of works and of the financing of those works, for the whole of the railways of the country, and also, I think I am right in saying, for the irrigation works of the country. This programme was liable in practice to constant variation, and the Secretary of State ultimately, especially in the last few years of Lord Morley's régime, was constantly warning us against attaching too much importance to it. I remember one case. On the strength of a triennial programme which Lord Morley had sanctioned, certain orders in advance were placed for rolling material, and Lord Morley took the strongest objection to this. He said the programme was not a sanctioned scheme of expenditure, but simply an administrative indication of what we proposed to do. The result has been that we have been gradually driven back to what is, in reality, an annual programme. We still, I think—Mr. Gillan will correct me if I am wrong—go through the form of preparing three years' statistics in advance, but they are frequently valueless, and the only important thing is the programme for the next year. What I should like to see, and what many of us would like to see, would be a genuine triennial programme, to which the Government would commit itself from its present resources, or, if necessary, supplementing these resources by further borrowing, and which would prescribe a definite amount for railway capital expenditure three years ahead.

9185. Is this a personal view of yours?—I am not saying this merely as a personal view; it is strongly held by most of us who believe in Indian railway extension.

9186. (*Chairman.*) Has it ever been urged by the advocates of that proposal in India that it might enable them to make their contracts on much more advantageous terms?—Quite so, to place advance orders on better terms.

9187. Foreknowledge is as important to the contractor here as it is to the community in India?—Yes; I think that has been very strongly felt.

9188. (*Sir Ernest Cable.*) You mentioned to us the case of a ryot who would spend the few rupees in his waistband when he went to the bazaar, but if it had been a sovereign he would not break it; that was not, I imagine, a Bengali ryot?—No, it was up-country.

9189. If this was generally the case, I should like to point out that the result was to hoard the sovereign, not to spend it?—If you mean by hoarding, reserving it against a greater necessity, I agree.

9190. I was interested in hearing what you said about the great bulk of the Government currency notes not being held by the people at large. Is that so? Is there any return available showing what proportion is held throughout the country amongst the villagers? That information has never been obtained, I think?—I am afraid not, and I think it would be almost impossible to get it. The people would immediately think you were going to increase their income-tax.

9191. I should have thought 5-rupee notes would be largely held amongst the villagers?—I fancy there is a certain number of them so held, but I think it must be comparatively small.

9192. With regard to a State bank and to your answer to the chairman to the effect that if there was a calamity the Government would have to come to the rescue of the central bank, would not the Government have to help the Presidency Banks under present conditions? If the Bank of Bengal, for instance, were to get into difficulties the Government would be practically bound to come to the assistance of the bank, would it not?—I could not at all speak for the Government of India in that matter.

9193. Partly as a matter of commercial expediency, and partly in the interests of the Government as well as of the people, do you not think the Government would be morally bound to come to the rescue?—If I might refer to experience—an experience of which you have a larger share than I have—the Government has never hesitated to help the Bank of Bengal when it requested special assistance in times of special crisis, and one may deduce probably wider considerations from that fact.

9194. (*Mr. Keynes.*) With reference to the high balances, I understood you to put them down partly to accidents and partly to a proper desire to be in a very strong position in the future. That second cause I put on one side; but in so far as they are due to the first cause, accident, is it your opinion that in any way the system is at fault, or was it a quite unavoidable circumstance which no system could have helped?—By system, do you mean the Budget system?

* Cd. 1713.

9195. I mean the Budget system, and also the arrangements which led to the lapsed grants?—As I have explained, I think the lapses which occurred very largely in the expenditure of the railways would be to a considerable extent avoided by a longer programme of capital spending; and they also might be, I think, mitigated by a more liberal system of what we may call overcertification in regard to railway stores ordered in advance. But as regards the increase in the revenue surpluses, I do not think that I could attribute that to any fault in our Budget system. It is due to the exceptionally good years, to possibly somewhat exaggerated caution, and to the very rapid advance which India has made in all possible directions in the last five years.

9196. I think you also spoke of provincial grants for capital expenditure which were not all spent in the year. I suppose when Government makes a grant of that kind it is not likely that it will be spent within the year in which it is given?—No; as a rule it is extremely unlikely that any substantial part of it would be spent in that year.

9197. Does the Government go on the hypothesis that it will not be spent and keep it in its cash balances?—The money is not put away in any separate pocket.

9198. It has the effect of increasing the cash balances, has it not?—Yes.

9199. Is this system a necessary one seeing that these grants will not be utilised for two or three years' time? Could that not be allowed for?—Both the Secretary of State and the Government of India have always set their faces very rigidly against what they regard as the financial heresy of funding excess revenues. I take it that what is in your mind is a form of investment of moneys which have not been required for immediate uses.

9200. It would take various forms; it might mean that you might borrow less in the year in question and more a year later on?—I think that is being done now. I understand that the loans are very much smaller than they used to be, and that the justification for the small loans is the distance of those programmes.

9201. Would you be in favour of the Government taking into account the fact that these grants would not be spent at once and laying all its other plans on that basis?—It does so now. When the Government prepares what we call its Ways and Means Estimate, it always takes for granted that the provincial governments will not spend promptly those large special subsidies which they have been receiving recently.

9202. If this factor is already taken into account, it cannot be a part explanation of the high balances; it is only so far as it has not been taken account of that it explains the accumulations?—In so far as the local governments have gone beyond the Imperial Government's expectation in regard to the failure to spend this money, that is true.

9203. But it is partly taken account of already?—Yes.

9204. Is that another point on which you think they have been a little more cautious than they need?—May I give you the justification for the caution? I take the justification from my own personal experience. In the province which is now under my charge, we have been given very large and liberal grants for a system of national education. Those grants take their place in the figures which I have attempted to give you. We have been pressed by the Government of India to expedite the disposal of this money on advantageous terms. No doubt the executive department of the Government of India which has been pressing us in this matter has been advising the financial department that we are under severe pressure to get rid of the money as soon as possible. We, on the other hand, have deprecated being hustled in the matter. We feel that until we have got a programme of education which has looked all round the subject, and has brought in the co-operation of the people and all the rest of it to the greatest possible extent, we should be thoroughly unjustified in spending largely from these grants. The consequence is that they have lain in our balances against what I may call the remonstrances of the Imperial Government.

9205. I should have thought that in that matter the policy of the local government was obviously the right one, and that the Government of India, having been criticised for having too large balances, is now trying to get rid of them by every possible means, and that they therefore urge that by asking you to say that you intend to spend this money and then lay their plans accordingly; they are urging you to spend it sooner than you naturally would?—I think there is more in their mind. I think it is more an administrative question than a financial one. They are extremely anxious to see the education of the country advanced at the quickest possible rate, and they are pressing us to take all the necessary action. The subsidiary consequences of the large lapses is not in any way intentional.

9206. There is some difference of opinion between the Government of India and the local governments as to the rate at which these sums ought to be expended?—That is true.

9207. The Government of India have acted upon the hypothesis that their own policy would be followed, when in point of fact perhaps it may not have been followed?—Not, at least, so rapidly as they hoped.

9208. With regard to the date of budgetting, I understood you to say that at present the budget is done such a very long time in advance that to antedate it six months would not bring it really within the monsoon period?—That is my feeling. When I said that the Budget starts a long time ahead, please do not imagine that I am excluding the capacity of the Government of India or of the local governments to correct the figures on a large scale according to the alterations in the season. But those corrections, as a rule, we feel, are not wholly satisfactory. We feel, in connection particularly with the land revenue and with the canal and railway revenues, which are intimately associated, that the man on the spot, if I may use that expression, is the estimator whose figures we ought to follow as closely as possible; and that any large lump corrections, in a hurry, at the end of the budget season, are always rather dangerous.

9209. Would it not be possible to make your district officers produce two estimates: an optimistic estimate and a pessimistic one; and then, six months later, when they had more information, it would be very easy to get information from the local governments, whether they think on the whole the optimistic or the pessimistic estimate ought to be held to?—Our poor district officers are heavily overworked and I should not like to add this to their trials. In practice something like that actually happens in regard to the land revenue. There is a most elaborate system by which they are called upon to provide the figures—I speak for the Province I know—in the event of the rains being favourable, and in the event of the rains failing by a certain date or stopping by a certain date.

9210. In that case the whole machinery exists already, and if the date of the Budget were postponed the Government would then be in a position to choose between those two estimates, whereas now it is not in a position to choose between them?—It is in a position at present to choose between them, but the difficulty is that it has no possible means of judging which of them is more likely to be correct.

9211. I mean that if the date is altered, it will have the material on which to base its choice; at present it has no material?—That would not be so if the date is altered to the 1st September. I want you to be quite clear about that. I think that on the 1st September they will be in a better position to judge of the results of the current monsoon than they are on the 1st March to judge of the results of the monsoon which is still distant. But the full effect of the monsoon is not really known until the end of September; so that if you are going to produce a Budget for the year, beginning on the 1st October and continue to produce it well in advance of that date, I think the additional information you will have will not be sufficient to justify the change.

9212. If the date of the Budget was postponed to October—and I think your answer to the Chairman shows that there are no insuperable difficulties in the

way—do you not think that you would have more material?—Do you mean with the financial year beginning in November?

9213. No, I mean that they should not publish the Budget until a few days after the commencement of the financial year, the present practice of publishing it in advance being abandoned and the financial year beginning on the 1st October?—I would ask you to bear in mind the many complications that there are in producing our Budget. They are greater, I fancy, probably, than, other things being equal, they are in England. If we have to produce a Budget which dates from the 1st October, according to our present arrangements we should have to have the whole of the figures, practically in their final form, by, let us say, the 1st September. We have to produce them in that form after constant telegraphic communication with the Secretary of State. The Budget figures involve probably extra taxation, remission of taxation, large grants for local governments, and all sorts of things of that sort; and at every single step of that kind we have to get the consent of the Secretary of State before we can incorporate it in our Estimates. What would happen if you had your October to September year—even if you decided not to bring your Budget into Council until, as you suggest, the 1st October—would be that for three weeks or four weeks before that we should have been not only working against time ourselves, but working the telegraph to and from the India Office with great rapidity and constancy, and this would be prior to one of the critical times of the rains, which begins in the second and third weeks of September. So I do not think, even by dropping our present attempts at financial virtue and bringing in the Budget a month later, or even after the beginning of the financial year, we should get over that difficulty.

9214. If the date was made the 1st November, would these difficulties apply?—I should have to work all through the calculation again to answer you, but I rather think they would. As far as I remember—and I tried to focus all the dates in my mind this morning in anticipation of these questions—I do not think we could do it in comfort, if I may put it so, for any year earlier than the calendar year.

9215. It appears to me that the complications are the same whatever the date is, and therefore if you put the date forward six months you must gain six months, and if you put it forward seven months you must gain seven months, and a point must come when you can just use the latest information?—The complication is not quite the same, I am afraid. First, the cardinal date for seeing the effect of the current monsoon being, let us say, the 20th September, you want a reasonable interval after the 20th September for the tabulation of your figures, for your correspondence with the Secretary of State, and for all the other proceedings that have to be gone through before you produce your real Budget. Let us say we want six weeks for that purpose; that brings you to the end of October or the beginning of November. I should prefer, unless I contemplated the Finance Department being worked to death, to let them produce their Budget on the 1st December.

9216. I am merely endeavouring to discover what date you favour. It appears to me there must be some date which would avoid all these difficulties, but I have no opinion, of course, what date it would be?—I have suggested the 1st December. I think that is the best date if you are going to change it at all.

9217. You have expressed your own personal opinion against lending from the balances, on the ground that it would require a banker's discretion to know when to lend and when not to lend?—Yes, in quite a number of circumstances which might often recur.

9218. With regard to the loans from the paper currency reserve, do you think that the same objection does not hold?—Not quite, because the only other demand upon the paper currency silver is its production for the payment of notes which are returned.

9219. The loans from the paper currency reserve might serve to make the Indian money market easy or not easy?—They might.

9220. There are occasions when it is not desirable to make it artificially easy, are there not?—There are many occasions. That is a point I am very glad that you have mentioned. It seems to me that the test of the bank rate ought not to be pressed to the same extent that it is in England, because it means very often a very different thing. A high bank rate may simply be a device of the Presidency bank in a given area to prevent certain forms of trading, to check overtrading, and to check speculation. We often see that, when the money market in reality is not tight, and when you can get local loans, shroff's loans, as they are commonly called, at rates very much below the official bank rate.

9221. The officer responsible for the lending of the loans would have to be governed by general banking considerations?—Yes.

9222. Do you think that is a work which could be done suitably by officers of the Government with their present sources of information?—As I said, I dislike the additional responsibility which those loans would throw upon them, but I do not say that the officers of the Government would resist or resent the responsibility if they were told it was for the general good.

9223. I do not know that they would resist it, but are they competent to perform it efficiently in your opinion with their existing sources of information?—They have got very difficult work to carry through at present in the administration of the various reserves and of what is really a banking concern of a very extended character; and I think I must leave it to the Commission to say whether they do that well.

9224. At present they have no banking business in the sense of judging what the financial position is all over India, and whether money ought to be made easier or not; they have none of that sort of banking business at present, have they?—No, they have not an intimate acquaintance with the demands and the necessities of the various trades. The Comptroller-General's constant duty, however, is to be in touch with the requirements of every single large industry in India from the point of view of the provision of currency, for instance, and an extension of that same information, that same knowledge, and that same experience would, I think, help them very materially in judging on loans if they were unfortunate enough to be required to make those.

9225. You think it is rather an undesirable duty, but not an absolutely impracticable one, to put upon the local officer?—I do not think it is absolutely impracticable, but I would rather not see it put upon him.

9226. At the same time you would agree that the present system of keeping the Government balances in the chest is a very extravagant one?—In the sense that you lose interest on them.

9227. In the sense that the amount of capital represented by those funds is for the time being wasted?—Is for the time being shut up. I should be very glad to see that capital made more useful.

9228. You have also, I think, expressed the opinion that more is kept in actual hard cash in the paper currency reserve than is really necessary to ensure the convertibility of the notes?—Personally I think so.

9229. The general drift of these questions is in connection with the State bank?—I understand.

9230. What I am putting to you is this, that the present system is rather wasteful, but at the same time a cure of it is exceedingly difficult if Government officers are to do the whole business: would you agree to that?—I agree that the present system does not give the Indian market the advantages which ought to accrue to it from the capital which is shut away in the Government treasuries; and I agree that it is a heavy task to impose upon Government officers to entrust them with the most efficient disposal of the balances if they are to be placed in the hands of the market. At the same time I ought also to point out that, as we stand at present, we are in no way debarred from handing over very much larger balances to the Presidency banks, and I think it would be quite

possible to do so without any radical alteration of our system.

9231. As long as you do not do it on so large a scale as to dominate the Indian money market?—Quite so. I think the general feeling in India, as far I have been able to judge, is that the amount which we should have to place at the disposal of the Presidency banks in a time of ordinary tightness, apart from a serious crisis, would not be a very imposing amount—in fact the mere promise to place the funds at their disposal would probably in many cases be sufficient.

9232. I turn now to a different subject. In mentioning the figure which you prefer for the liquid gold in the gold standard reserve, were you assuming that there was a certain amount in the paper currency reserve, or were you regarding those two questions as being independent?—I should like to leave the paper currency reserve out of the question for that purpose. It seems to me that, although it is absolutely true that the whole of our gold resources must be called upon and practically brought into one line for the purpose of supporting exchange, yet the fact that our paper currency reserve of gold in London is a very variable quantity and might very well have been drawn off before that time of crisis arises by the purchase of silver, makes it undesirable that we should bring it into our calculations at all. If there happens to be paper currency gold available, so much the better, but we cannot count upon it, and I should like to make the figure in the gold standard reserve entirely independent of it.

9233. I was thinking not simply of gold in London, but of all gold in the paper currency reserve in India also. Would you, in arguing that the liquid gold in the gold standard reserve should be 10 millions rather than 5 millions, absolutely ignore the consideration that the Government has 20 millions of gold elsewhere in a liquid form?—Before a time of crisis I doubt, in the first place, if the Government would have anything like 20 millions; I think it would have dribbled away very materially beforehand.

9234. I suppose it would help to support you in a crisis if you knew that, besides this 10 millions, you had 20 millions elsewhere?—I think, unless we have some standard before us, and, what is almost more important, before the public, in the way of gold in the gold standard reserve, we are on unsafe ground.

9235. Do you want this gold in the gold standard reserve to be accumulated in addition, or would you be perfectly satisfied supposing that the four millions kept in rupees in the gold standard reserve were simply exchanged for four millions of gold from the paper currency reserve, and if five millions' worth of Consols now in the gold standard reserve were to be exchanged for five millions of gold from the currency reserve, thereby increasing the gold by nine millions?—I am afraid I have not quite caught the question.

9236. Do you regard the gold in the two departments as independent, and would you be satisfied by a change which would bring up the gold standard reserve to the figure you want, at the expense of the paper currency reserve?—Liquid gold, do you mean?

9237. Yes?—I see no objection to your bringing up the liquid gold to 10 millions by any device you may select, providing that does not derogate from the ultimate arrival at an aggregate of our gold currency reserves of something approaching 30 millions.

9238. You do therefore take into account what your total gold resources are. Do you want the Government of India to get five millions more gold from outside than it has got already, or do you want a mere bookkeeping transaction by which it credits the one reserve with gold taken from the other?—I quite see your point, and I admit that it is a very strong point as long as the paper currency reserve is in a strong position; but my view is that the paper currency reserve is a very fluctuating one as regards the gold in it, and we cannot predict at any given time what is likely to be there. Consequently, I should like to work up to 10 millions of liquid gold in the gold standard reserve absolutely independently of the sum which at any given time may be in the paper currency reserve.

9239. (*Chairman.*) I think at the moment Mr. Keynes is putting a slightly different question to you, the force of which I do not think you see?—I am afraid I do not.

9240. Suppose that we increased the liquid gold in the gold standard reserve by sending to the paper currency reserve silver and receiving from the paper currency reserve liquid gold in exchange. Mr Keynes asks supposing it were possible, by this means to bring up the gold of the gold standard reserve from five to ten millions, would you be better off or would you not?—I owe Mr. Keynes an apology for not catching the point of the question. I quite agree that we should be no better off than we are at present, taking this moment as the point of time; but I feel that we should be in a stronger position as regards the future, because we should have established a standard.

9241. (*Mr. Keynes.*) So, that that process of exchange would satisfy what you want?—For the moment, yes.

9242. (*Lord Faber.*) You would be satisfied with selling Consols from the paper currency reserve and handing the gold for the Consols to the gold standard reserve?—We could not do that under the present state of the law; but I should be content if an additional amount of, let us say, rupees or sovereigns were obtained by the sale of securities to the paper currency reserve and if I thereby secured at once 10 millions of sovereigns in the gold standard reserve.

9243. (*Mr. Keynes.*) In fact, your point is really this, that it does not much matter at a given moment whether the gold is in the gold standard reserve or in the paper currency reserve, but if it is in the gold standard reserve then it is safer and is more certain to remain there for long periods?—Yes. Wherever the gold is, it is all available or ought all to be made available for supporting exchange. I am looking at the gold standard reserve constitution from the point of view of our critic, the man in the street. I want to show him that in the gold standard reserve we are laying up a definite amount, not only in the aggregate but also in sovereigns, which we regard as sacrosanct for the purpose of defending exchange when an exchange crisis comes, and that it will be kept there independently of anything that may happen to our other gold resources in the interval.

9244. I think that is a very wise policy, and I only desired to be quite clear whether you wanted a policy of that sort or whether the Indian Government should get the 5 millions of gold from elsewhere which it has not now got?—I am sorry, I did not at the moment quite understand.

9245. (*Mr. Gillan.*) It come to this, does it not, that in order to keep up the gold in the gold standard reserve you would not object to what was rather weakening the gold portion of the paper currency reserve?—No, I should not.

The witness withdrew.

TWENTY-SECOND DAY.

At The India Office, Whitehall, S.W.

Friday, 24th October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir JAMES S. MESTON, K.C.S.I., recalled and further examined.

9246. (*Mr. Keynes.*) I want to ask some questions now in relation to the gold question. You gave it as your principal reason in favour of gold that the use of gold is educative. I did not clearly understand what you had in your mind by that; what do you think it would educate people towards?—We hope that gold will in time teach the people to realise a better and more economical form of currency than that with which they are already familiar; and it will do it in this way—They will gradually be led on to greater confidence in the Government currency system, and in time to a more intimate knowledge and appreciation of the advantages of banking, thrift and economy.

9247. If you had said that of the note issue I could have understood it, but you seem to me to be getting dangerously near saying that you would encourage the people to take gold rather than notes in order to educate them to take notes. Does not what you say about getting them familiar with a credit currency apply to notes and not at all to gold, which is as far from a credit currency as you can get?—That is perfectly true in theory, but as I tried to explain yesterday, I think in practice the great bulk of the people of India will be a very long time before they come to an absolute familiarity and intimacy with notes. I hope that a closer and better acquaintance with gold will in time teach them the advantages of something which is more profitable than their present system of hoarding. I quite realise that notes, inasmuch as the note is paper and has no intrinsic value, would in the western mind be a step towards familiarity with cheques; but I think the operation is somewhat different in India, and I think the history of finance in India will be somewhat different from what it is in the West.

9248. You do not think familiarity with gold would work in exactly the opposite direction; you think that the mere familiarity with gold coin rather than with silver coin would lead the people towards paper?—It is not so much towards paper; it is towards economy, towards thrift; that is what I am thinking of. The great enemy of all economical use of money in India hitherto has been what is commonly known as the thriftlessness of the people. I do not admit that the people are intrinsically thriftless, but I consider their surroundings and environment make it extremely difficult for them to be thrifty in the sense in which the French peasantry are thrifty. I think a familiarity with gold will tend in that direction, and that thrift will lead to better banking and greater confidence in credit.

9249. But you cannot give any reason why you think familiarity with gold rather than with notes or silver will have this effect. Is it a mystery which cannot be explained?—No, it is not a mystery. As I say, the position of notes is terribly handicapped in India, because of the dangers attending the possession of notes in the hands of ignorant people and poor people, and the same dangers do not attach to gold. If you want to teach people you must give them a lesson book which is not dangerous to them and which they are not afraid of.

9250. It appears to me to be a lesson of quite a different kind. However, I gather that you would only be in favour of encouraging gold where you thought it was not practicable at present to encourage notes?—That is so.

9251. Wherever it is practicable to encourage notes you would do it?—Certainly.

9252. I want to put a few further points about the efforts on the part of the Government to make gold popular. Suppose that the policy is very successful, as it seems to be quite possible it might be if the Government put their backs into it, and all persons in India definitely preferred gold for all transactions of a size which warranted it; if one assumes that one-third of the circulation became gold in this way, what is your notion of what would happen? I suppose in the first place all the gold you now have in the Currency Department would go into circulation and be replaced by rupees?—I think a considerable flow of gold would come into the Currency Department; but that of course depends very much on the action of the Secretary of State.

9253. That could only apply to the increases to the currency, which are necessarily slow?—Yes.

9254. Taking it beyond that increase, the gold must replace either notes or rupees?—It seems to me that there will be a constant flow of gold through the paper currency reserve, and that you cannot take any definite point at which the currency reserve will be depleted of gold, and no more gold will come into it.

9255. If people are moving in the direction of gold, the first consequence will be new increases to the currency in the form of gold; and, if they move, as they well might, a little faster than that, then they must replace rupees with gold, and the only way in which they could do it would be by bringing rupees to the Paper Currency Department and taking out sovereigns in exchange?—Yes; or by bringing raw bullion to the mint and taking sovereigns in exchange.

9256. But there is no reason why they should have such bullion?—That is where my theory comes in, that the practice of stowing away gold out of circulation will diminish.

9257. If I may go back, except in so far as there is an addition to the currency, they must get rid of rupees?—Yes.

9258. Therefore, if the policy is very successful you would expect an outflow of gold from the Paper Currency Department and an inflow of rupees?—That would be so with a stationary aggregate currency.

9259. And if the movement of the people towards gold was fostered in the interests of the currency?—Yes.

9260. What would happen if it were more successful still? Suppose that people would always rather have sovereigns in any transaction which was big enough,

and all the gold flowed out of the Paper Currency Department, how would you then provide sovereigns? Are you proposing to melt down the silver?—No, I hope not.

9261. Is not the policy a dangerous one? Unless it is only very moderately successful your reserves are all put in danger, are they not?—If your policy becomes a success, success means that gold takes the place of silver for all future additions to the currency, and even replaces some of the silver already in currency; and then, of course, I do foresee difficulties. But I think that is quite an impossible future.

9262. So you would agree that your policy, if by chance it was to be very successful, would be dangerous?—Yes, if it were pressed to extremes I think it would be dangerous.

9263. Do you not feel that for Indians it is probably a very natural thing to like gold, and that with a little encouragement they might easily do it on a very large scale?—I do not think so. I do not think that the amount of silver in circulation now is nearly enough for the ultimate requirements of the country. I consider that there is a large class of transactions, and always will be in India, that can never be met by gold; also a very large class of people who will be for all time, as far as one can see, unfamiliar with gold to any large extent.

9264. Your proposal is, therefore, based on the assumption that there is going to be a very large increase in the coinage, and that that increase, and no more than that, will take place in the form of gold?—No, I do not even assume that. If I understand the drift of your questions, you are pressing me to represent the position of India at a time when no silver will have been added to the currency and nothing but gold will come into the pockets of the people. Now I consider that is an impossible thing to look forward to; I do not think that will ever happen. All that I have been trying to press for is what I called before free trade in currency—let the people get what they wish. I believe that they will in time, with a little encouragement from Government, or even without it, take gold in a larger proportion than they do at present. That gold will replace silver for practical purposes. It seems to me that the position contemplated in your question implies a restriction on the legal tender of silver. We are a very long way from that at present; I do not say it is impossible or that it will never come, but we are a long way from it.

9265. We have received evidence to the effect that in some parts of India there is already a great deal of use of sovereigns, and that in Bengal and some other parts there is almost no use at all. There seems no intrinsic reason why in these other parts they could not be made, with a little encouragement, to use gold, and if they did use gold for moving the crops, I should have thought that my estimate of one-third of the currency in that form would not be at all exaggerated. It is at any rate a possibility which the advocates of gold have got to have before their minds, is it not?—Yes, I think so. If I might diverge for a moment, it will probably illustrate what I am trying to place before the Commission. You said just now that there is practically no gold used in Bengal. That, I believe, is true, but here you come to the very point at which I have already been driving, that the possible suspension of additions to the silver currency is in a very distant future. In Bengal I think it is perfectly true to say, or at least in Eastern Bengal, that up to a few years ago, up to the time at any rate at which the jute merchants began to bring currency into the country, there was practically no silver circulation. Eastern Bengal is an example of a part of the country where monetary coinage until quite recently was almost unknown. You have first to flood all those parts of the country with silver before one can contemplate their taking gold to any large extent; consequently, the stoppage of the silver circulation and its replacement by gold is to my mind still very far off.

9266. Would it be incorrect for me to put it like this: that you would view the policy of popularising gold with alarm if you for a moment believed that gold might establish itself as anything like one-third of the currency, but you do not think there is the slightest chance of gold really becoming very popular, and therefore you would like a slight mild luxurious use of gold, but not more?—I consider that a third of the currency might present dangers which we do not at present foresee, but I think even that is a very distant ideal.

9267. It is only because you think it very improbable that the gold will be used to anything like that extent that you are in favour of encouraging it?—Yes.

9268. With regard to the phrase, free trade in currency, complete passivity on the part of the Government officers is scarcely possible, is it? They must tender something—in cases where somebody simply wants money they must either tender him notes, or gold, or rupees?—They may very well ask which he wants to have, and I think they generally do so. Circumstances may arise in which they have not got one particular medium, and then they press their customers to take the other; but, ordinarily speaking, I think they give them a perfectly free choice.

9269. It is not the case that the facilities for exchanging gold and notes are exactly the same?—That is so; they are not.

9270. And it would not be very easy to make them exactly the same?—I quite agree.

9271. So that Government almost necessarily favours one rather more than the other; all that it can do is to try and give people what they want if they ask for it?—Yes.

9272. Do you mean more by free trade than that?—No.

9273. You do not mean it to imply that an attempt to push notes should be deprecated?—No; I do not want to push any form of currency.

9274. But do you think it would be a bad thing to push notes, provided that a man could get gold when he asked for it?—I do. I say that if we have our treasury reserves and our currency reserves strong enough and sufficiently well located to enable people to take either of the three forms of currency, we ought to be absolutely impartial in the matter.

9275. So that you would be against pushing notes, even if that policy was combined with a policy of allowing people gold if they wanted it?—Yes; I am against pushing any form of currency.

9276. Why?—Because I think we ought to give the people what they want. If we are strong enough to give it to them they ought to have it.

9277. Do you think that any attempt to educate them to use what you think is the most educative form of currency is wrong?—No; I never say education is ever wrong; far from it.

9278. I am trying to get at your reasons for this unwillingness to encourage the people, without forcing them to use what you consider the best currency?—I think I must distinguish between encouraging and forcing. We have been very much scared at any attempt to force currency on the people. The attempt was once made, and it was a terrible failure. When you refer to encouragement, I find some difficulty in drawing the line between that and enforcing. If you mean moral suasion, so to speak; that we ought to teach the people and we ought to explain to the people the advantages of one form of currency over another, then I can go with you. If, on the other hand, you say we ought to instruct our treasury officers to try and press the people to take notes when they are somewhat reluctant to do it, then I am against you, because in India, with the humbler people, the smallest indication of an official line is very often taken as a formal order, and I think we ought to avoid any appearance of that sort of forcible persuasion.

9279. I was thinking much more of increasing the facilities for the encashment of notes?—I am quite with you that we ought to increase these facilities as far as we can afford to do so.

9280. Whereas in the case of gold, while reasonable facilities should be allowed, the Government should not put itself to expense to convey sovereigns to remote districts on the chance that they might be wanted there; that is what I mean by encouraging or not encouraging?—I do not think there is much

between us. I do not think the Government does, as a matter of fact, incur expense in moving sovereigns unless there appears to be a genuine demand for them. In the case of notes, we feel that the convertibility is a liability which we ought to meet as far as possible at the largest number of trade centres. The number of trade centres at which we do meet that liability has increased, and I suppose will to a moderate extent increase in future.

9281. As we all know, there have been some developments lately in the direction of increasing the availability of notes; is there much further in that direction which you think can be done?—I think that we might open a few more currency centres, if I may use that expression, where the conversion of notes will be a legal obligation; but we ought to progress somewhat slowly in that matter. I would not recommend—if that is also in your mind—the universalization of notes of higher value than those we already have.

9282. Would you think it possible to do anything in the same direction as is done by the branch offices of the Reichsbank? In their case the notes are only legally negotiable at the head office, but the instruction of the Bank Act is that they shall be encashed at the branch offices, so far as the resources and exigencies of the latter may permit?—That is very much in consonance with our actual practice.

9283. Do you give instructions to your officers at places where the notes cannot be legally encashed to encash them whenever they can?—Yes, we do. That is done now.

9284. In point of practice, is it nearly always possible to get a note encashed at a district treasury?—Yes; I think so. When I say "a note," of course I do not refer to very large sums.

9285. Would it be so with a 50-rupee note?—Yes; certainly.

9286. Is that also the case at the sub-treasuries?—It would be more difficult at sub-treasuries. Any large presentation of notes at sub-treasuries would probably be impossible.

9287. Would it be a natural thing for a person to go to a sub-treasury with a 50-rupee note and ask for it to be changed?—Yes.

9288. And generally, could he get it changed?—Yes.

9289. Even at the sub-treasuries?—Yes. I am assuming that you are meaning the singular when you speak of a rupee note.

9290. (*Chairman.*) Up to what point are the notes now universalized?—100-rupee notes and anything below.

9291. It is above that that you think it would be unwise to go at the present time?—I think it would be.

9292. Would you give your reason for that?—The reason is mainly that for ordinary hand-to-hand purposes anything above 100-rupee notes is extremely unfamiliar in India; in other words, the larger notes, the 1,000-rupee and the 10,000-rupee notes, are really stores of value which are put away in reserves by banks and bodies of that sort, and are extraordinarily rarely seen. I have never seen a 10,000-rupee note except at headquarters in the reserve treasuries. What I feel is that, although legally our liability may be limited to specific points, still it hits our credit rather hard if we are obliged constantly to be refusing to cash notes at out-of-the-way centres or places where the legal liability does not exist, and consequently it is better that we should put the matter on a straightforward basis.

9293. (*Lord Faber.*) You are in good company, because if you have a Bank of England note issued in London, and you present it at Leeds, they will not pay it unless they know you?—There is, of course, another consideration, and that is a purely revenue one. The fact is that the internal remittances of funds in the country are very largely in the hands of the Governments at present, either by treasury transfers or by the medium of the Post Office. In these ways we acquire a certain revenue which we should be rather sorry to discard. That is, of course, quite a subsidiary consideration.

9294. (*Chairman.*) That is what I thought probably, from what you said, you are a little afraid of; you fear that the internal remittances of large sums would then be made in big notes, and the whole expense of those remittances would fall upon the Government without remuneration?—Precisely.

9295. (*Sir Shapurji Broacha.*) To the man in the street, the placing and withdrawal of the balances in the hands of the Presidency banks seems rather capricious; is it regulated by the will of the officer, or by some strict rules?—The balances in the hands of the Presidency banks are, as you no doubt know, subject to a definite minimum. There is also a provision by which above a definite maximum the Presidency banks are liable to pay interest. Between these two limits the amount is, I think, more or less accidental. It depends very much on the requirements of the district treasuries, and on the possible demands in the reserve treasuries what the exact balance is.

9296. Is the sum placed in these Presidency banks at the caprice of the officer between the minimum and the maximum?—I should not describe it as his caprice. I think it is very much a matter of convenience, having regard to the other claims on the treasury at the time.

9297. We have it stated in the correspondence that the Government generally keep larger balances in the Presidency banks immediately before a new loan is launched?—I think the practice is to ease off the balances, as we call it, just before a loan is issued. That is a very natural process.

9298. I think the Government has priority over all the corporation loans?—We generally get the Government loan out before the corporation loans.

9299. This year, just after the last loan, when three crores were withdrawn from the market, the corporations were left in the lurch. Is it not fitting that the Government should help themselves, and the corporations too, as much as they can? Soon after that last loan, several floatations for corporations, including the Calcutta Port Trust, had to be withdrawn because of that withdrawal of three crores from a small market like India. With 32 crores in the treasuries, it does not appear to an outsider to be a very wise step to take so much off the market. The consequence is, however, that some of these public works will have to stop. The Bombay municipality, who wanted to launch a loan of 40 lakhs, had to be content with 20 lakhs, and that under par, and, as I have said, the Calcutta Port Trust had to withdraw their proposed loan. These are matters which in the money market are more or less matters of sentiment, not so much dependent on the quantity of money available but on the sentiment at the time. Can you tell us what was the reason for this sudden withdrawal of three crores just before these corporation loans were given to the public?—I am very sorry, but I cannot tell you. I was in another sphere of work at the time.

9300. One of your reasons for not lending money to the public, I think you said, was the fear of overtrading?—I would not put it in that way. I think that what I said rather was that the bank rate, I believe, on occasions was raised for that purpose, rather than for the purpose of indicating a definite tightness in the general market.

9301. Still there is that fear present in the Government of India's mind, that the money may not be returned at the due dates?—I think not. I think the Government of India are perfectly happy in the belief that, if the money were advanced to the Presidency banks, the Presidency banks would not only check overtrading, as they do now, but would also return the money when they were asked to.

9302. Up to now, the Government of India have acted in this manner in a detached sort of way, not looking round to see what other countries do under these circumstances. I think the money will return in the time, if it is sufficiently secured, but meanwhile it might happen once in 30 years or 20 years that it might not, yet, on the whole, India will have prospered for 20 years by the Government lending money?—You

are referring, I suppose, to the old story of the Bank of Bombay. That is very ancient history, is it not?

9303. No. Neither the Bank of Bombay nor the Bank of Bengal has helped the market, because when their funds have been exhausted they have said they would not do business for the Government for nothing and take the risk and liability of it. I am talking of the year which is just passing?—May I read a quotation from a letter, which interested me very much at the time, which was written by an official of one of the Presidency banks—Mr. Grey, of the Bank of Bengal—on this point. He was describing the trade relations with the banks, and more particularly the relations of his Presidency bank with the exchange banks in his circle. He said this: "Jute is bought, manufactured, "and shipped with our money. When shipped, it is "drawn against by bills on the consignee, and the "bills are sold to the exchange banks, who repay us. "They get the money from London by Councils or in "gold. We have thus to lend heavily, but we cannot "borrow locally. When the money market in India "is bare, high rates of discount are useless, as they "do not produce money." That probably has some reference to the question which is in your mind.

9304. Last year and the year before, when the Government here were lending something like 30 crores, surely India might have had three or four crores. It raises invidious distinctions in people's minds there when banks are lent money in London and they are not lent money in India?—I admit that that sentiment is very strongly held in India.

9305. I think the Government of India and the Secretary of State were at great variance at one time as to the amount of liquid gold to be held in the Standard Gold Reserve?—There was much discussion on that subject.

9306. I do not think they are yet agreed as to the amount?—The Government of India have accepted the Secretary of State's decision.

9307. But they have accepted it with reluctance, as they state themselves. Is it not the Government of India's view that all the gold should be kept as far as possible liquid?—The Government of India would like to see a very large proportion, a larger proportion than at present, of the gold kept liquid; but they have had naturally to accept the very definite assurance which was given to them in Lord Morley's time, when he accepted full responsibility for converting into liquid gold as much of the securities as would ever be required for the purposes of the reserve.

9308. It was an assurance to keep one crore liquid in the shape of short-dated securities or short-dated lendings, as against the 25 crores that you asked for, I think?—I forget the exact figures at the moment. I think it was one million sterling he said they would keep in cash, and a considerable amount in short-dated securities and loans.

9309. Would it not be better that it should be kept in liquid gold than in short-dated securities?—There is a strong feeling that the amount of liquid gold here should be larger.

9310. One reason that has been given for the present practice is that the exports of India are in excess of her imports, and therefore you would always be able more or less to maintain the exchange; India is only protected in one way. India at present is not investing in foreign securities, but a time will come when India will invest in foreign securities, and then it will not depend on the trade excess. That, I think, is one reason why there should be more liquid gold in the Gold Standard Reserve than the amount which has been fixed?—Perhaps.

9311. You said that you would not put a limit to the Gold Standard Reserve; at present you say it should be 30 millions, but the figure may change with the times and the circumstances and the trade of India in the future?—Yes; I think the limit ought to be reconsidered from time to time.

9312. Then you say you should educate the people to use more gold; I think Indians at all times use more gold than any other country that I know, as a rule?—Do you mean in the arts?

9313. In every way. Somehow or other they are more accustomed to sovereigns. Between 1907 and 1913 we received more than 70 millions of gold, and against that, for coinage for silver, only 7 millions; so I think if you want to protect the silver coinage, there is enough gold coming into India to protect it, if the people are ready to lend it at a time of emergency?—Yes, if you assume it comes out as readily as it goes in.

9314. Since the closing of the mints I think the silver used for coinage does not represent half the amount of gold that is absorbed?—That is so.

9315. You say the Government are afraid of the absence of protection for the silver coins; if that fear is to be justified, the habits of the people will have to change, because there is no want of gold coming into India?—I think the habits of the people are changing in many respects. We have had very reasonable evidence that gold is being put into private hoards in place of silver. I was very much struck some years ago by the enormous number of very ancient rupees that one used to find in the Punjab and the North of India, which undoubtedly must have come out from a hoard in the ground, and that at a time when there was no reason to deplete the hoards. There is no doubt the silver was being replaced by something else.

9316. I think there is more necessity for a starvation diet for gold than for pushing gold?—That also is educative.

9317. If all the gold that is asked for is given without restriction, do you not think the people will become more suspicious? Supposing there is no gold given out, would that not be worse than the starvation diet which they have been accustomed to?—Do you mean that a sudden cessation of gold would be serious?

9318. There may be, for instance, rumours of war or anything like that when notes and silver coins come with such a rush to be exchanged for gold that gold may have to be refused?—Yes, that time might come; it has come already.

9319. Therefore, is it not better to let them know that gold is not to be given on demand, and to accustom them to that idea, rather than to give gold on demand for a time and then suddenly stop doing so?—I do not like the idea of refusing to give them what is, after all, the legal currency of the country.

9320. But would it not be worse to refuse it when they have become used to the gold? They will be more afraid of danger then than if they were accustomed to the refusal, and had been always using silver?—I hardly think the refusal to give gold, when the Government's supply of gold coinage is exhausted, would produce anything in the nature of a panic.

9321. Suppose the Bank of France were to proclaim that they would encash all the 5-franc pieces in gold, do you think there would be much gold left in the Bank of France?—I am afraid I do not know enough about it to answer. I believe they have a very strong holding of gold.

9322. Still they would not do it?—The question is whether it would ever happen. I do not think it would ever happen in India, certainly.

9323. But this is certain; the people of India, I know, in case of any crisis, in case of any war, in case of any agitation, would come to you for gold. They know the difference in the values of silver and gold; they know that in the value of the silver rupee there is only 66 per cent. or 60 per cent. of metal, and that in gold there is the full value; they understand their interests; and they would rush in for gold. To refuse them at that time would create a greater want of confidence than to refuse gold always at the option of the Currency Department?—I quite see your point, but it seems to me that when a crisis of that sort occurs, it would be almost necessarily simultaneous with such a fall in exchange as would bring the gold reserve in London into operation.

9324. In no country is the gold given out as you suggest; not in Germany, not in Austria, not in Russia, though they are gold currency countries. Why, therefore, should it be so in India? Gold in the Paper Currency Reserve or in the Gold Standard Reserve would be more valuable and would show

India's stronger position than gold in the pockets of the people. So why should Government help to fill the pockets of the people? Take, for instance, exchange between Calcutta and Lahore; they would give silver there at $\frac{3}{32}$ difference on exchange, and gold at $\frac{1}{32}$ difference on exchange, and so any man would naturally prefer to have a gold sovereign for his 15 rupees at any time?—I do not think it is their standing practice to make that difference.

9325. It was put in evidence by Mr. Dunbar?—I saw his evidence, but unfortunately I did not see it until I had left India, so I was not able to verify the episode to which he referred. As far as my recollection goes, that was an altogether exceptional transaction, and I rather think, if I may hazard an explanation, that it was due to a purely personal and temporary arrangement by which one large exporting firm undertook experimentally to utilise gold to a larger extent in the Punjab than they had ever done before. So far as I have any recollection of the transaction, it was never referred to the Government of India officially and it was never accepted as a policy by the Government of India, but an arrangement was made with the Accountant-General of Bombay to give transfers on Delhi, I think, in gold at a somewhat cheaper rate than the ordinary transfers. It was offered only, as far as I know, to one particular firm, and it was offered in consequence of an arrangement between these two persons to experiment in the utilisation of gold in moving a big crop in one particular year. I should be very sorry, without further reference to the record in India, to admit for a moment that any general practice of this sort was ever accepted or anticipated.

9326. (*Chairman.*) You speak of it as an experiment; could you tell me the object of the experiment? Was it to ascertain whether if the gold were available a larger portion of it could be put in circulation?—That was, as I understand, the object.

9327. Then the idea in the mind of the Accountant General must have been that it was advantageous to get gold into circulation?—He was an officer who was very firmly wedded to the gold theory.

9328. As far as your knowledge goes, that experiment stands by itself and was not repeated?—As far as my knowledge goes certainly.

9329. (*Sir Shapurji Broacha.*) So far as the country is concerned, the more gold there is shown to be in the central treasury rather than in the pockets of the people the stronger is its credit; for instance, Russia has an enormous amount of gold in the hands of the Government and in the Bank of Russia, and I suppose you will admit that her credit stands higher than if that gold had been in the pockets of the people of Russia?—Yes.

9330. Why ought not that example to be followed in India? Would not our credit be stronger if we had 40 crores of gold in our reserves than if we had 50 crores of gold in the custody of the people?—I think the only difference between us is that you would like to see a strong reserve and no waistcoat-pocket gold and I should like to see both.

9331. (*Chairman.*) In so far as the two are incompatible, that is to say, in so far as one is increased at the expense of the other, which do you think it most advantageous under present conditions in India to increase—the gold in circulation or the gold in reserve?—I would much rather increase the gold in reserve, and, if necessary, check the circulation until our reserves are sufficiently strong.

9332. (*Sir Shapurji Broacha.*) What gold do you expect would come to the mint? I suppose it is rather a sentiment that you want to satisfy by this proposal of a mint; or do you think it is a necessity for India?—I would not go so far as to call it a necessity. I think it would meet a very strong and reasonable sentiment in India. Educated Indians feel that there is no particular reason why they should be worse off than some of the great Colonies which have already been supplied with a mint; also Indians generally look upon the mint as an attribute of sovereignty, and they feel that its presence in India would be regarded as adding to their national pride.

9333. How would they recognise one coin from another; there would be no Indian hall-mark, I suppose—all the sovereigns would be the same, would they not?—I think we should have an indication of the mint, the same as they have in Australia.

9334. I suppose it would come out like the Australian sovereign or the English sovereign?—It would be very similar.

9335. And there would be no hall-mark of India on it?—There would be a mint-mark on it, I take it.

9336. A separate mint-mark?—Yes.

9337. The separate mark on the Indian sovereign would be so nearly invisible as scarcely to distinguish one coin from the other. Except one-third of the gold from the Mysore mines, what gold would come to the mint? As you know, the bars of gold that come out to India are already hall-marked, and bar gold is about 1 per cent. dearer than sovereign gold?—I accept your knowledge on that subject.

9338. Would it be from patriotic motives, do you think, that they would bring in bars of gold and send them to the mint and get back sovereigns which would cost 15 rupees and two annas?—As I said yesterday, the supply of raw gold to the mint will not be uniform or regular.

9339. If there were not a sufficient supply brought in, in a few years you would have to scrap the machinery?—I do not think we should have to scrap it. After all, the machinery we set up for minting gold could be utilised with very little alterations in the minting of silver.

9340. Remember that bar gold could be sold at a dearer price than sovereign gold?—I should like to suggest to the Commission that the expression "scrapping the machinery" is a slight exaggeration, because, except for the provision of new collars for the presses, I think everything could be utilised.

9341. Supposing there were different views on that subject? Turning to another aspect of it, suppose that for five years the Government of India were to pay for all gold 3*l.* 17*s.* 9*d.* per standard ounce, just to see whether India requires a mint; would you accept that as an experiment?—You mean buying gold at a favourable rate?

9342. Yes?—I hardly think so. I think the experiment ought to be a much more direct one.

9343. Do you know that from 1898 to 1902 gold was paid for at the rate of Rs. 1 for 7·53344 grains troy of fine gold and not much gold came in?—That is so; very little gold came in.

9344. Is there a popular demand in India for a State bank?—It certainly has not become one of the planks on the platform of the advanced political parties, and it does not come within the horizon of the great mass of the people. To that extent I should not say that there was a popular demand.

9345. If Indians want a thing, they ask for it, do they not?—Yes.

9346. It has been stated here that there are no popular demands, although demands are made for them or proposed for them; but I think we know too well in India that there are many popular demands?—I quite agree with you.

9347. I think the European merchants have a large monopoly of the trade in India—as a rule, anyhow—and of course they are a very intelligent body?—Have they got a monopoly in Bombay?

9348. They have the Chambers of Commerce, and when they are touched in any way they send in petitions and ask for interviews; is that not so?—The Chambers of Commerce express the views of the commercial community with great ability.

9349. They are the merchants' exponents?—Yes.

9350. If they really wanted a central bank or a state bank, do you not think that a deputation would have called on the Governor-General asking for it?—That is quite possible.

9351. As a fact, no deputation has come up to now?—That is so.

9352. Suppose that in making a normal year's Budget you have a surplus of four or five crores, would you be pleased with that surplus?—Do you mean at the end and not in the original estimate?

9353. Yes?—I should be quite contented.

9354. If you had the next year the same surplus, would you try to reduce taxation?—We never budget for such a large surplus. The ordinary traditional budget surplus is about a crore. It has recently been increased somewhat, on account of the demands of the new capital at Delhi; but I have no recollection of the Government of India ever having budgetted for anything like three or four crores.

9355. I think, for a prosperous country like India, a surplus of two or three crores or even four crores is nothing?—I should be delighted if we were allowed to budget for that amount.

9356. When India wants such large public works and the credit of India is a little shaken in the London market, I think it is but right to anticipate a surplus of three or four crores in your Budgets?—You know there are two schools of thought on that subject. There are many wise authorities who would say you were thereby drawing money from the pockets of the taxpayer, which you ought not to.

9357. We are in the position of Russia to a certain extent. The Russian surpluses for the last few years have been 21 millions on an average, of which two-thirds is spent in public works of utility. I think that would not be a bad idea for India. I know, of course, that whenever there is a little surplus there is an outcry about vexatious taxation, but I think that the surpluses should be larger in order to protect your public works?—I am very glad you think our taxation is so light.

9358. (*Sir James Begbie.*) I want to ask you about the paper currency reserve and the strength of the silver holding. Is the reserve of rupees not maintained at a higher level than would be the case if only demands for the encashment of outstanding notes had to be considered?—There have been times at which it has been higher than the mere conversion of notes would necessitate.

9359. The reserve is maintained partly to secure the conversion into rupees of imported sovereigns, is it not?—Yes.

9360. So far as that goes, does it not mean that the cost of maintaining such a reserve adds to the cost of the currency system?—It does mean that, if you imply that we should accept no liability to receive gold in exchange for rupees; but we have accepted that liability.

9361. And over all it means, does it not, that India has to bear the cost of two reserves, one of silver and one of gold, or gold securities?—India has to bear the cost of providing notes and providing silver and frequently gold on demand.

9362. That is necessitated, is it not, by the fact that the Indian system is a gold exchange standard, or has been conducted on those lines for some time?—The Indian system is theoretically a gold standard.

9363. We have had it in evidence, I think, that as worked it is a gold exchange standard system?—I am afraid I do not know the exact definition of a gold exchange standard. That term has been applied to certain other countries, for instance, to the Philippines, and I believe that it has a somewhat narrower interpretation than the Indian system has. It is very largely a matter of definition.

9364. So far as it can be applied to the Indian system, does the Government of India approve of such a system?—I am not quite sure what system is in your mind.

9365. I understand that to some extent, at any rate, the Indian system has been conducted on the lines of a gold exchange standard; so far as that is the case, does it meet the approval of the Government of India? I am only using the term in the way in which it has been used in evidence, to mean a system which provides gold for the maintenance of the par of exchange, but under which it is not obligatory to give gold out against the token currency; or as meaning that India is only on a gold basis as regards foreign exchange, and that it is not a gold country?—May I put the question as I understand it? I understand you to ask me whether the Government of India approves of the system by which at present we give gold in London in exchange for rupees presented in India when the necessity arises, and at the same time we issue, so far as we can, gold for internal circulation in India. If that is so, then I can only say that the Government does approve of doing so. But if, on the other hand, you suggest that the Government of India is desirous of having a system by which there shall be no gold to issue in India and all the gold in its Governmental stock will be held in London for the purpose of supporting exchange, all I can say is that the Government of India does not think that it would be politic to restrain our operations in that matter at present.

9366. I pass on now to the question of free trade in currency. Am I right in understanding that you mean free trade within the limits laid down by the currency regulations?—No; I should like to see the currency regulations a good deal more liberal than they are. One would look forward to a time when there will be absolute free trade, and when people will get without limit any currency which they might find most convenient and which they might demand.

9367. With free trade in currency would you agree that as between sovereigns and rupees there should not be a greater inducement for the circulation of rupees than of gold?—Yes; I do not wish to see preferential inducements for any single form of currency.

9368. If Council Bills were sold against the Paper Currency or Gold Standard Reserves below gold import point, would you say that such sales gave a preference to the circulation of rupees?—Yes, in the sense that they deter gold from coming into India.

9369. With regard to the gold mint, would you restrict the gold coin to be issued by the mint to the sovereign?—Yes, I should.

9370. (*Mr. Gillan.*) I want first to ask you about some points that came out in evidence yesterday—for instance, the question of the Budget date. What I want to get from you there is precisely what importance you attach to this question. You said, I think, that we budget for a normal year?—Yes.

9371. A normal year is a sort of thing that very seldom occurs?—Quite so.

9372. You may be defeated by a famine year, which I think you told us yesterday in 1908-9 led to a deficiency of something like 3¾ millions?—Yes.

9373. On the other hand, in the recent prosperous years, having based your Budget on the normal you have been having a very large excess over the Budget anticipations?—Quite so.

9374. So that at the present time these very large variations, you may say, are really inevitable?—I think they are.

9375. And those variations must operate against our making the best financial arrangements?—Yes, they do.

9376. Either you are without a great deal of the money you are budgetting for, or, on the contrary, you have a great deal of money which you did not anticipate and for the use of which you have not provided?—The variations do handicap us.

9377. Does that not strike you as rather a serious matter?—One dislikes anything in the nature of speculative or bad budgetting; but what I feel is that a change in the Budget date to, for instance, an October-September year, would not in any material sense diminish the discrepancies, that a change to the calendar year would somewhat reduce them, but I am not sure that the net effect taken all round year after year is worth the alterations that would be necessary.

9378. You think you would not be on much firmer ground if you changed it as you said to the calendar year, which you prefer?—I think we should be better off; I think actuals would be slightly nearer budgets, but I doubt if the general advantage would be material.

9379. If the financial year ran from the 1st January, would it not be the case that at any rate nine months in each financial year would be more or less secured?—Yes, I think it would.

9380. On the basis of the monsoon which had by that time passed behind you?—Yes.

9381. Would that not give one much greater security?—I quite agree; I think it would.

9382. I do not know if this is your impression, but whenever the matter has been under consideration at all in India, I have had the impression that there will be very great difficulties at home in fitting in any alteration of the Budget date?—That is a very important consideration, which I did not touch at all.

9383. Assuming that those difficulties are not so serious or that they could be got over, do you think the matter is so important that you would rather press the Government of India to make an alteration in the Budget date if it were found possible?—I think on the whole that if the Secretary of State could arrange his budgetting and his estimate of ways and means with the same facility for a calendar year as he does for our present financial year, I should be disposed to make the change.

9384. (*Mr. Keynes.*) In the year 1907–8, if you had had a calendar year or a November year, you would have been able to avoid so large a deficit as actually occurred, would you not?—I think we should.

9385. That is a case in which by that time you would have got knowledge which would have been important to you?—Yes.

9386. (*Mr. Gillan.*) With regard to the question of the gold currency and the gold exchange standard, which has just been raised by Sir James Begbie, I do not know that there is any very great difference of opinion, but it seems difficult to reconcile the differences of opinion that have been expressed. You know the great point of criticism which has been brought against the action of the Government in currency matters is that it has not followed out the recommendations of the Fowler Committee?—Yes, I do.

9387. The demand made on us is that we should carry out those recommendations, and it seems to me a primary point for the consideration of the Commission to say how far exactly they stand in the same position as the Fowler Committee, or how far they think experience since then has led to a modification of the policy then laid down?—I am very glad you have given me this opportunity of explaining what may have seemed to be the somewhat rigid and dogmatic attitude of the Government of India in regard to a gold currency. The Government of India have felt that they were loyally bound to carry out the pronouncements which have been made from time to time by authoritative bodies, and which have been accepted on their authority by the Secretary of State. The position has been one of steady evolution. The first big Commission which investigated our position was the Royal Commission on Gold and Silver of 1888,* I think. They definitely approved of a gold standard, and said nothing more. Five years later there came Lord Herschell's Committee, on whose advice we closed the mints and established a gold standard. In a very important subsidiary report, Lords Farrer and Welby added the corollary that the Government of India must accumulate a sufficient reserve of gold to secure the convertibility of the rupee. That we regarded as a step further. Then came in 1898 the Fowler Committee, which advised us to open a mint as in Australia to the unrestricted coinage of gold. The exact words which they used about the currency were that they looked forward "to "the effective establishment in India of a gold "standard and currency based on the principles of "the free inflow and outflow of gold." Now, that is the last authoritative word that we have had on the subject, and the Government of India's feeling has been that until another equally competent authority either develops or sets aside this instruction it is our duty to work towards it. But, as you have pointed out, we have been insensibly diverted from carrying this out literally, to some extent by the very remarkable and very vital experience that we have gained of the working of the system between 1898 and now. There has been no deliberate or ostensible departure from the principles of the Fowler Committee, but the circumstances of the time have been too strong for us.

9388. (*Lord Faber.*) Do you mean by the circumstances of the time the difficulty of getting gold?—And the possibility of employing gold in a somewhat different manner from that which the Committee contemplated.

9389. (*Mr. Gillan.*) What modification, if any, in the thesis of the Fowler Committee would you consider now practicable or desirable?—We have established the Gold Standard Reserve which they advised us to do, and we have put the gold standard on a very definite basis. All that we ask is that we should be permitted to establish a coinage system which would supplement the somewhat limited manner in which the gold currency recommended by the Fowler Committee has been brought into effect.

9390. I think, judging from the words you have read out of the Fowler Committee's Report, they obviously thought that the problems of exchange and of internal currency were indissolubly connected?—Yes, certainly.

9391. If you remember, there was one very prominent witness* who gave evidence before them who said that he could not conceive of a gold standard without a gold currency?—Yes.

9392. It is with regard to our experience since the date of that thesis that I should like your opinion. The view which has been developed, I think, is this—in fact this is what you yourself said yesterday—that the liability to find gold depends on the balance of international obligations?—Yes.

9393. The view I am referring to says that that liability can be met sufficiently and promptly by reserves, and that we can now afford to treat the internal currency on its merits, that is to say, with regard to the requirements of an internal medium of exchange; would you accept that?—I entirely accept that.

9394. But that is getting a good deal away from the position of the Fowler Committee?—I am not quite sure in what respect the idea of the Fowler Committee would be inconsistent with that. After all, the internal trade and the external trade of the country, if we look at it in that way, are all part of one great transaction. I quite admit that the internal currency is a thing which they regarded as part and parcel of the general currency system of the country, but your point is that we are now taking these practically in separate compartments.

9395. More or less?—I quite agree with that statement of the case.

9396. I think they considered that the question of exchange would really not be sufficiently properly provided for until you had got a thorough gold currency?—That is so.

9397. Are you prepared to say from the experience we have gained that it is now possible to provide for the support of exchange by our reserves without a gold currency?—I quite agree that we have to that extent modified the policy they have laid down.

9398. As a matter of fact, when you say you would like free trade in currency, that is a desire, is it not, which is really dependent on the adoption of this gold exchange standard idea; I mean, if you hold the alternative that a gold currency is essential to the support of exchange, then I take it you would have to subordinate the needs of your internal medium to exchange, and, so to speak, force gold on the people; is that not so?—Yes, I agree.

9399. So that this question of free trade in internal currency is really bound up with this new development, we will call it, of a gold exchange standard?—Yes.

9400. Now about the gold mint as connected with that. You have said, and I think the Government of India have always expressed a very decided preference in that direction, that the sort of coin to be minted should be the sovereign?—Yes; they have regarded the sovereign as being what Sir Shapurji once called it, the cement of Empire.

9401. The advantages to the Empire from that point of view, of course, are clear. There is only one point I would like to put to you; it has been suggested in evidence that the sovereign is too big a coin for the great majority of the payments that have to be made in India?—I think the sovereign is too big

* C. 5099, &c.

* The Lord Rothschild: *see* C. 9037, Q.A. 7614, 7621, 7625–8.

a coin for a very large number of the ordinary payments that have to be made in India, and therefore the sovereign would not be in everyday use to the same extent that it might be in a richer country; I quite see that. If this objection were regarded as driving us towards a smaller piece, we consider the objections to those smaller pieces to be greater though of a different type.

9402. Are you referring to the expense of maintenance?—No. Let us take first of all the 10-rupee piece, which is the standard alternative. The main difficulty there, as you know, is that the 10-rupee piece if coined at all freely would be a competitor with the 10-rupee currency note, which is one of the last things that we desire. Then if you consider, as some authorities have considered, that a still smaller coin, a 3-rupee piece, or 5-rupee piece, should be made, we are afraid of the grave wastefulness, the wear and tear, and the serious loss. What we also feel is that there is a risk that any coin other than the sovereign, and of a smaller denomination, would in course of time, when seriously depreciated, be presented in exchange for sovereigns, because ostensibly they would all remain legal tender, and, therefore, the consequent loss would fall entirely on the Government.

9403. Taking it merely from the point of view of payments, I take it you would agree that perhaps the 10-rupee coin might be more useful. It was put to us by one of the previous witnesses, that a 10-rupee coin could be used in payment of a great many amounts between 10 and 15 rupees?—I think the 10-rupee coin possibly would be more generally useful than the sovereign; but, all considerations taken together, we prefer the sovereign.

9404. There is one point in the same connection that I might clear up. I think it has been suggested that there can be no demand for a smaller gold coin in India, because the half-sovereign has never been popular; but my recollection is that the half-sovereign has never been made available?—The half-sovereign hardly comes to India at all. No half-sovereigns have come from Australia, in fact I do not know that they mint them in Australia; and the half-sovereigns that occasionally come from Egypt are so depreciated that we try to keep them out.

9405. So that the absence of the use of the half-sovereign in India is no guide in this particular case?—No, because we have no general experience of the use of the half-sovereign.

9406. I do not know whether you would like to add anything to what you said about the gold mints with reference to the attitude which the Home Treasury take up about that question?—I have been asked to say that the Government of India think that, in view of our very large experience and very considerable success in minting in India, it would be a graceful thing if my Lords of the Treasury would relax the conditions that they have hitherto imposed, and allow our mint masters to coin sovereigns, under any supervision and subject to any assays and any periodical inspection that they may see fit to impose.

9407. (*Chairman.*) In contemplating the opening of the mint how do you propose that its expenses should be met? Will you charge for coinage?—No, we do not suggest that there should be any seigniorage.

9408. You are aware that there is a seigniorage in Australia?—Yes.

9409. On what ground would you justify coinage in India without seigniorage?—On the ground of popularisation, and also on the fact that our mint will be an extremely inexpensive one if we are allowed to carry it out on the lines which we originally suggested. I think the last estimate I saw of the initial expenditure is only 3,000*l.* The annual expenditure will depend entirely on the attitude of the Treasury. If we are allowed to carry it out through our own agency we should do it for next to nothing.

9410. (*Lord Faber.*) Do you think you would be able to get the raw gold for the purposes of coinage in India?—If you mean the raw gold produced in India, not for some time.

9411. That is under contract, we understand, to come to England. Do you think that it would gradually come to you?—It is possible that on the completion of the existing contracts they might consider our terms.

9412. (*Chairman.*) In making that request on behalf of the Government of India, have you in your own mind, and had they in their minds, the state of the law in England at the present time?—Quite so; they realise the difficulties in the way of the Treasury.

9413. They realise that they are asking for a change of the British law?—Quite so.

9414. (*Mr. Keynes.*) You are probably aware that the English mint will not give sovereigns on demand to a private person, but that there is a great deal of delay involved?—Yes.

9415. So that in practice anyone who wishes to turn gold into sovereigns takes it to the Bank of England, when there is no foreign demand, and gets 3*l.* 17*s.* 9*d.* not 3*l.* 17*s.* 10½*d.*?—Yes, I am aware of that.

9416. Are you proposing that the Indian mint should charge no seigniorage, but should give sovereigns on demand in return for gold and so underbid the Home mint?—No that is not our object at all.

9417. What would be the effect of your action?—As compared with the present condition of things?

9418. Is it your intention that people should be able to get sovereigns for gold on demand, or after a very short time, at 3*l.* 17*s.* 10½*d.*?—I could not answer that question, because I have no idea what the cost of landing gold in Bombay, as compared with the cost of conveying it to the Bank of England, would be.

9419. The terms that you offer is a matter of profound importance, is it not, when you are considering whether gold will come?—I think it is not a matter of the very highest importance, because I am still of the opinion, however heretical it may be, that the opening of a mint in India for the coinage of gold will not materially, if at all, *per se* increase the flow of gold into India.

9420. If you can buy gold in London at 3*l.* 17*s.* 9¼*d.*, we will say, and can turn it into sovereigns in India on demand at 3*l.* 17*s.* 10½*d.*, that will be a very important exchange consideration to some who are able to remit either gold bars or sovereigns?—Yes, I admit it would come into the calculation.

9421. It is the whole point, is it not; whether you get any gold or not really depends upon whether or not you give better terms than the Home mint?—I do not know enough about the gold trade to say. I am always rather doubtful, and I think there are many other considerations such as freight, insurance, the payment of obligations, and all sorts of international trade questions, which come in and materially influence the fact whether that would be a sufficient attraction to bring gold to us in a much larger quantity than comes at present. It is a very complicated question which I should be very sorry to answer straight away without a lot more knowledge.

9422. The Government of India have not considered that aspect of the case fully?—No, they have not gone into it.

9423. (*Mr. Gillan.*) There are a few points I want to trouble you about in connection with the reserves. First of all, about the location of the gold held; I think you said the Gold Standard Reserve should be in London?—Yes.

9424. I want to ask you about the gold belonging to the Paper Currency Reserve held in London. We have been told that that portion of the Paper Currency Reserve originated as a matter of giving extra Councils—I will ask about that when I get to the question of Councils. The second reason that has been given for it is that the gold held here is ready for conversion into silver and it is near the source of supply of silver. Would you accept that as a reason for holding some of the paper currency gold here in London?—Yes, certainly. That, I think, was one of the main reasons in the Government of India's mind at the time the London Currency Chest was created.

9425. Another reason is its usefulness for exchange?—That was the reason stated by the Secretary of State, and accepted by us.

9426. I think you suggested yesterday that we could not very well count on it for that purpose?—I

should like not to count on it. I admit that as long as it is there it is available for that purpose, but it is impossible to predict the amount which may be there at any given time, and consequently we would be stronger without complicating our calculations by considering it.

9427. There is another consideration I would like to put to you in the same connection; I think what we are generally considering is a crisis in exchange?—Yes.

9428. It is quite possible, is it not, that you could have a crisis that would lead not only to a fall in exchange, but to a run on the Paper Currency Reserve?—That is extremely possible.

9429. And that is a contingency which you would think ought to be provided for?—Yes.

9430. If it arose, the funds of the Paper Currency Reserve would not be very well situated in England, being removed, so to speak, from their base?—No large amount of them.

9431. Is that a consideration that weighs with you for keeping only a small quantity here?—Yes. We always have pressed for moderating the amount to be kept here.

9432. Then with regard to the fiduciary issues of the Paper Currency, I think yesterday you sketched out some sort of distribution of the reserve, so much in specie, so much in investments, and so on?—I made a very tentative suggestion in that connection.

9433. What I wanted to ask you more particularly there was on what sort of basis should the proportion of specie to notes be?—I think the basis should be a liberal ratio of the total note circulation.

9434. That is what I wanted to put to you, because in the correspondence between the Government of India and the Secretary of State, when an increase has been proposed in the investment it has generally been said that the average of the minimum note circulation of the last three years has been so much, and we therefore consider that an increase in investment is justified?—They have done that, I think, really on the basis of exceeding caution, so as to be perfectly on the safe side. Personally I should, in suggesting any reconstruction of the reserves, be perfectly prepared to base our calculations on the total circulation.

9435. Is there any real difference in your opinion between the part of the note circulation which is held by the public and the part which belongs to the Government?—No. I think it is desirable that Government in all matters connected with what I may call their Currency Trusts, or their Standard Trusts, should put themselves out of court, or rather that they should treat themselves as being private creditors. From that point of view I should like to see the notes held by the Government treated in exactly the same way as the notes held by the public.

9436. The currency note is not legal tender in payments by Government, is it?—No.

9437. So that if you had any trouble affecting the stability of the Paper Currency Reserve, you might have a position in which the Government would require to cash the notes held by itself in order to get the coin to make its payments with?—It is quite conceivable.

9438. I take it that very much the same considerations would apply to that part of the paper circulation which would not be held by the public?—I entirely agree.

9439. I do not think any questions were put to you about the silver branch of the Gold Standard Reserve. Have you anything to say about the need for that, or the possibility of its abolition?—I am much obliged to you for bringing that point forward, as that was one of my instructions. The Government of India are anxious to maintain the silver holding in the Gold Standard Reserve, because they consider that it emphasises the fact that we need a reserve of six crores to make up the difference between the slack season balances and the busy season balances. They also believe that the depletion of this reserve would be a vivid warning for the necessity of fresh coinage, and they feel that that silver is conveniently placed, because it could be temporarily exchanged for gold without having the effect of overloading the Paper Currency Reserve with gold. That is the view which I am instructed to place before the Commission.

9440. A sufficient number of rupees can be provided, can it not, within the Paper Currency Reserve?—Personally, I think the original circumstances which necessitated the creation of this silver branch are not nearly so powerful as they were. At that time there was a low note circulation, and the fact of the matter was that any reserves of rupees which were required could not be conveniently held in the Paper Currency Reserve. Now, the circulation has increased so enormously that I am personally rather disposed to think there might be little real inconvenience in abolishing this silver branch altogether, and there might also be some advantage in view of the constant criticism to which we have been exposed, the constant suggestions that we have been juggling with it, and the difficulty of the ordinary man in the street in understanding what on earth a large holding of silver has got to do with a Gold Standard Reserve.

9441. So the balance of advantage would be, in your opinion, in transferring the rupees now held in the Gold Standard Reserve to the Paper Currency Reserve, and strengthening the gold portion of the Gold Standard Reserve?—I personally hold that view, but I am running away from my instructions.

9442. (*Chairman.*) In the instructions which were delivered to you, did the Government of India develop their idea more fully than you have done in answering Mr. Gillan?—No; I think I have given all the essential arguments that they entrusted me to state to you. I have the precise papers here.

9443. (*Mr. Keynes.*) This vivid warning which they spoke of, I presume was not for the benefit of anybody but themselves?—Only for themselves.

9444. (*Mr. Gillan.*) It has been suggested to us that there should be an amalgamation of the Paper Currency and Gold Standard Reserves; have you anything to say upon that?—On this point the Government of India have had no warning; it has never been a proposal before them, and as far as I know they have never considered it. It is, I think, possible that in the ultimate resort, and always assuming that you have a very large holding of liquid gold, the two reserves might be combined, but I am sure that the Government of India would be disposed to ask that the proposal should not be pressed. As I say, they have had no warning of it, and it is, I think, unquestionable that public opinion would not be at all ready for it, nor, indeed, have I seen any statement of any practical advantage which has been claimed for the proposal. I think myself that the public would greatly dislike any confusion between the two distinctly separate purposes which these reserves fulfil. There is the further consideration that if the Gold Standard Reserve is going to be placed under Statutory regulation we should, according to present arrangements, have two separate laws governing two inseparable branches of one amalgamated reserve. We might also have a conflict of views between the Government of India, which administers the Paper Currency Reserve for the greater part, and the Secretary of State, who would administer the Gold Standard portion of the reserve. Therefore, there are grave disadvantages obvious on the face of the proposal and no advantages alleged for it, so far as I know.

9445. You have mentioned this matter of the regulation of the Gold Standard Reserve. I think you said yesterday on that question that the only point which suggested itself to the Government of India as calling for regulation was some provision that the funds of the Gold Standard Reserve should not in any case be devoted to any other object?—It is the great desire of the Government of India that that should be clearly and emphatically and authoritatively stated.

9446. There are two other points that have been suggested to us as calling for regulation; one was that a definite obligation should be undertaken by the Government of India to support exchange at a minimum rate; do you think they could undertake that obligation?—The minimum rate——

9447. Being the ordinary rate?—I doubt if we are in a strong enough position to make it a punishable offence if we failed to do it, so to speak.

9448. The idea was that it would give us a sense of certainty in case any other crisis came along, and the complaint was that the public were not quite certain what Government could do, and they would like it very definitely recognised in some form?—I should rather see that done in another way than by law.

9449. By notification?—Yes. We have done it already practically, and we can, of course, emphasise it from time to time in many ways. I should rather dislike to see it established by law.

9450. The third point was that a certain minimum should be laid down for the gold holding in the reserve?—We should like to see that, but at the same time I think that that purpose could also be perfectly well served by a rule made by the Secretary of State in Council.

9451. Without statutory regulation?—Without statutory provision.

9452. With respect to Council bills, there is a point of principle that I want to ask you about; it seems very important, and I would like to take your opinion. It has been put forward, I do not know as a justification, but as an explanation at any rate, of the amount of Council bills, that they were given, or have been given, largely in the interests of trade. Another view is that they ought to be given, and have really been given, only to supply funds to the Government. On those alternatives, what would be your view?—There seems to me to be only one possible answer to that. The Secretary of State can only draw bills on the Government of India's treasury in order to meet his requirements present or anticipated. It is inconceivable that he should draw for any other purpose. He may, it is quite true, convenience trade by drawing above his immediate requirements, provided always that he has the utilisation of the extra funds in anticipation; but unless he has that confident anticipation, it seems to me that he would be drawing, in order to benefit trade, money which belongs to India, and keeping it permanently as an investment in London for no particular purpose. I think that would be indefensible; it would either mean that we were overtaxing India, or that we were overdrawing.

9453. It comes to this, that it really proceeds on the assumption that the requirements of the Secretary of State are his immediate requirements and no other?—Yes.

9454. I think you included future requirements?—I did.

9455. The reduction and avoidance of debt the investment of temporary surpluses, or anything of that sort?—I should accept as a permissible subject for Council bills any liability which the Secretary of State anticipates that he would be able to meet, within a reasonable time, on terms of at least an equal advantage with those which he would have secured by waiting until the liability occurs.

9456. As long as the amount of Council bills is restricted to the amount of the Secretary of State's requirements, as you have defined them, so long you would say that the operation of drawing council bills does not amount to an interference with exchange?—That is so.

9457. Or to an interference with the flow of gold to India, or anything of that kind?—Quite so.

9458. Would you be in favour of the suggestion which has been made to us, to sell Council bills either at a fixed rate or not below a certain minimum rate, say not below 1*s.* 4*d.*?—I should not favour the sale of Councils at a fixed rate unless you are prepared to sell without limit, which is inexpedient. As regards the 1*s.* 4*d.*, the Government of India have from time to time taken exception to the sale of bills materially below that figure, and I think the general feeling is that so long as the Secretary of State keeps in touch with the market and prevents any action of his from reducing exchange below the gold point, and secures the total of his requirements, and does not obstruct the reasonable flow of gold into India, the system is not open to criticism.

9459. And it is not necessary to limit him to selling at not less than 1*s.* 4*d.*?—I should not think so.

9460. There may be circumstances in which it may be desirable that he should do so?—There may be.

9461. What would you wish to say with regard to the accusations of excessive coinage and the redundant rupee?—I wish, if the Commission will allow me, to explain the feeling of the Government of India in regard to the suggestion that it has saturated the country with rupees, or at least provided the country with rupees in excess of the real requirements of the country. It has been said, for instance, that the Government of India from time to time made wild plunges in coinage, that it has lost its head, and various other uncomplimentary suggestions of that sort have been made. In regard to that, the Government of India would like to explain, first of all, that heavy coinage by no means denotes saturation, and until the saturation point is reached (with all reserve as to the quantitative theory of prices) the Government do not feel that there is any evidence that their operations have affected prices or produced evil results in other ways. I doubt if it has been fully understood, as I tried to mention this morning, how vast are the areas in India which are yet practically untouched by coinage in the modern sense, what large masses of population there are scattered about India who are entirely unfamiliar even with rupees, how far payments are made in kind, how far purchase by barter still prevails. The feeling is that until those areas have been provided with currency, it is impossible to talk about saturation or redundancy. Also, it is felt that the average amount of rupees held by individuals is bound to increase as the standard of comfort rises, which it is doing, I am happy to say, every day. In the second place the Government of India would like it to be clearly recorded that it by no means follows that all the rupees which they coin go automatically into circulation at once. There is not a single new rupee issued in India except on demand, either for the payment of Council bills or for issue in exchange for gold. In neither of those circumstances could the rupees be refused. Assuming that we have over-coined, all that happens is that the residuum, the amount which is not demanded either in payment of councils or in exchange for gold, only lies in our reserves until it is demanded for actual circulation. I think I might almost go further and say even that thereby no great harm is done, because no interest is lost on it. If the silver were not stowed away in our mints, it would only be changed into another form—it would be changed into the form of gold, which would be earmarked in the Bank of England. So that our whole feeling, and our whole conviction, and our whole argument throughout all this controversy has been that the issue of coin is entirely automatic, and that it depends entirely on the response which we have to give, and must give, to the demands of trade. If the trade gets too many rupees, if it over-estimates its own needs, then Nemesis comes in time and the rupees come back to us, and we have to give gold in exchange. Therefore, from that point of view, we do deny, and we deny with considerable earnestness, the accusation of having produced anything in the way of redundancy of rupees in the offensive term.

9462. You would say that a redundancy of the rupee circulation which may arise at any time, would only continue if the Government failed to give gold for the rupees given back to them?—Quite so.

9463. As a matter of fact, the maintenance of exchange is a sufficient proof that the rupee has not been redundant?—I certainly think so.

9464. In any case the amount of rupees going into circulation does not depend on the discretion of the Government?—No.

9465. (*Mr. Keynes.*) In this connection, is there not rather a different charge? Is it not suggested that the right policy for the Government of India is to have no more rupees in their reserve than they want? They want to have as much sterling and other resources that they can easily exchange abroad as they can; and is not the charge that they have on some occasions filled up their reserves with silver to a greater extent than

was wise or reasonable?—I have not seen it in that form. The charge which is presented to us, particularly in the legislative councils, is that we have saturated the country with rupees, and consequently raised prices. That is the charge which hits us hardest, because we do not believe that it is true.

9466. Would you agree that it is a right policy for the Government of India to have no more rupees in their reserves than are necessary?—I quite agree, and that is the whole policy of the new theory of the regulation of coinage which I was explaining yesterday.

9467. You would be of opinion that the Government of India ought to be exceedingly cautious in the coinage of fresh silver, and not work more ahead of requirements than is absolutely necessary?—I am entirely of that opinion.

9468. (*Sir Shapurji Broacha.*) I suppose when they charge the Government of India with coining redundant rupees, many of them forget that wages in India have very much risen in the last 10 years, so much so that the people have one rupee more in their pockets than they had before?—That is a very important point.

9469. Again, when they say there is a redundancy of rupees or anything like that, they do not see that the population has increased, and that they have to carry their cash in their pockets, because there are no banks. Therefore, in India it would take a very long time before rupees would become redundant?—I believe so.

9470. (*Mr. Gillan.*) Would you like to say anything about the relations between the India Office and the Government of India?—I should be very glad to do so, because I think there have been suggestions in the Press of grave and serious discrepancies between the two authorities. In the first place, the Government of India have never for one moment forgotten their subordination to the Secretary of State in Council, and through him, to Parliament. That there have been differences of view, and that those differences have sometimes been pressed with considerable vigour is, I think, in the circumstances not unnatural; but I should like to explain that any misunderstandings have very largely disappeared, that the authorities now, I think, work in a very remarkably harmonious co-operation. The position of the Government of India in dealing with questions of finance pure and simple is in some respects a little difficult. It has to face a great deal of criticism in India which is entirely different from the criticism to which expression is given in England or in Parliament. The strong national feeling for instance, in India, as shown by "India's gold for India" and phrases of that sort, presses upon us very differently from what it does upon the Secretary of State in Council. We are constantly being told that we have been bolstering up the inefficient gold reserves of London from a selfish point of view; that we have been raising prices by coining silver when it was unnecessary; that we have been giving London cheap credit and giving no assistance to the trade of India; also that we have been helping other countries with our gold—not England but other countries—through the international agency of London; and that we have been parties to allowing the taxpayers' money in India to be used by the Bank of England as an excuse for not raising their rates, and so on. All these accusations come to us at very close range. We are not a secluded body in any sense, but we are exposed to the most direct and immediate intercourse with very acute critics. Although I should be the last to complain of that, and the first to welcome it, still I do rather feel that at one time in our experiences in this matter we had not the knowledge of what the Secretary of State was doing, or rather of the principles which underlay his action. When I went into the finance department first there was no practice, or almost no practice, of confidential and non-official communication between us and the India Office. There was some irritation of feeling. We got from the Secretary of State short dispatches on questions of great financial principle, which we should have been very glad to have understood better, and to have thrashed out more fully with the authorities in London, who presumably were in closer touch with the difficulties than we were. It also has to be remembered that in the Secretariat in India we are extraordinarily busy people. We have not got anything like the trained competent staff that a public office in London has, and we have got thousands of other things to do besides these questions of pure finance. It is quite possible that we, in the hurry, failed to seize some of the delicacies of the Secretary of State's arguments. All these tendencies rather meant cross-purposes at times, and did lead to cross-purposes, and there are records of disputes on such points as the proper form of utilising the silver in the Gold Standard Reserve—whether it ought to be utilised as a loan, or whether it ought to be utilised against investments in England. In regard to those particular points, I confess I think, reading the papers over again, that we were both right; we both had different points of view which the other side did not see. But what I am asked by the Government of India to say, and what I should like to put on record, is that that period of misconception has very largely disappeared, partly due to better personal acquaintance and personal relations, and also partly due to the larger and more extended system of non-official explanatory correspondence in supplement of the official dispatches which pass between the two Governments.

9471. (*Sir Ernest Cable.*) Yesterday, in reply to the chairman, on the question of the gold standard reserve, you suggested that there should be no limit placed upon the accumulation of that reserve, and this morning, in reply to Sir Shapurji, you said a limit from time to time should be considered; therefore I imagine that you recognise that there is some sort of measure by which the size of this reserve should be determined, and that it should not be altogether accumulated to any extent?—Yes. When I said there should be no limit I meant there should be no finality about it. From time to time we must have a limit to work up to, and I quite agree with you that it would be a very good thing if we could have some defined standard by which we could regulate our temporary limit from time to time as we go along. That standard generally has been regarded in the past as something bearing a relation to the Secretary of State's home charges.

9472. Do you consider the reserve would be adequate if the Secretary of State were to accumulate liquid funds up to two years of his requirements?—I think that would be adequate. The 30 millions which I suggested was based on a calculation by a formula of the Government of India's own devising, that the standard reserve in London should be adequate to meet at least half of the home charges for a period of three years. You go a little further.

9473. (*Chairman.*) Did the Government of India at the time that they formed or expressed that opinion, give any indication of their view as to the amount of the 30 millions which should be in liquid gold?—I do not think so. I think all that they have done is to press for an adequate amount in liquid gold.

9474. Would you care to be any more definite, or would you prefer to leave it at that?—I should be very glad to see permanently a third at least of the total amount held in liquid form.

9475. (*Lord Faber.*) Do you think that is enough?—What I feel is that if you have a reserve of 30 millions with 10 millions in liquid gold, that would enable you to meet what we call reverse councils for a period of three or four months, and that would be possibly long enough to enable the Secretary of State to realise the very much larger volume of short-term securities and short loans.

9476. Going back to 1907–8, you wanted a great deal more than 10 millions of gold then, did you not?—Yes, we did. My point was rather this: If we had 10 millions of gold, and assuming that the reverse councils came to about half a million a week, as they did on one occasion, that would take you on for 20 weeks, that is, five months. In the interval, unless there is some great and long-spread crisis in London as well as in India, presumably the Secretary of State would be able to raise a great deal more gold by selling short obligations.

9477. If I remember rightly, there was an American crisis in 1907–8; if that crisis had been in London instead of in America, you would have found a great deal more difficulty than you did in getting gold?—Of course, I should be the last to quarrel with an adequate security; I have only been trying to put the minimum.

9478. (*Mr. Gladstone.*) You made some reference to a recent proposal of the Government of India to advance perhaps up to three crores from their surplus balances to the Presidency banks at times of pressure; would you care to say anything about the rate of interest? It has been represented to us here that the bank rate is no use to the Presidency banks, and that they have not been willing to take advantage of that rate?—May I just refer to the draft despatch* which they gave me—I had not this before me when I answered the original question. The Government of India's most recent proposal is a proposal dated some day in September, and I find on referring to the draft which I now have, that they contemplated loans up to an extent of three millions—I was wrong in saying three crores—and that as regards interest, they recommended that it should ordinarily be from 1½ per cent. to 2 per cent. below the current bank rate. I am not aware what orders the Secretary of State has passed on this recommendation.*

9479. In reference to the suggestion of issuing short term bearer bonds, known here as floaters, you explained that you thought they might interfere with the securities issued by other corporations, but I would suggest that the rate of interest, and the price of issue might be so arranged that they would not give a better return to investors than the 3½ per cent. paper; but they would be attractive because, being short-term, there would be very slight fluctuations in the price, and they might be held by bankers and others who at present do not hold the 3½ per cent. paper because of the considerable market fluctuations that are unavoidable?—I am sure the Government of India would be very glad to consider that suggestion.

9480. I would point out that it might be an assistance to them, as they would have different types of security, just as our Government here have?—Thank you.

9481. In reply to the Chairman in regard to the up-country treasuries, you expressed the opinion that they were carefully watched, I think; but it has been pointed out that there have been great improvements, such as much greater railway facilities and telegraphic facilities, and one would have thought that they would have enabled smaller balances to be kept, whereas the tendency seems to be, as you rather said yesterday would be the case, for them to increase?—I think if you look at the transactions of the Government of India for a period of years, and take the aggregate transactions—that is, take the total balance sheet—you will see that it might fairly be said, where comparison is possible, that they have advanced more rapidly than the improvement in communications, and that our work is appreciating faster than the facilities for the movement of coin.

9482. Do you think the most modern methods are taken? For instance, would the Comptroller-General, or whoever attends to this, get these returns by wire on fixed days, or would it be a question of waiting for letters and reports which may take several days in transit?—He does get them by wire now.

9483. We understand that the Government of India are preparing certain data to show us the working of some of these treasuries, but of that perhaps you have not heard?—They have not entrusted it to me.

9484. (*Mr. Gillan.*) Suppose you have a limit fixed as regards the gold standard reserve; if you reach that limit and the coinage of rupees continues, the accumulation in the reserve is stopped?—Except as regards interest.

9485. Possibly as regards interest; but with that exception the further issues of rupees are, so to speak, uncovered?—Yes.

9486. You have got no insurance against them?—That is so.

9487. Does not that rather confirm the criticism that is brought against the system we are working under, that in fact it is a managed system in the sense that everything depends on your reserve, and the reserve is at the discretion of the Government, both with regard to its aggregate and with regard to its constitution?—I agree that it is properly described as a managed system.

9488. Then it is the case, is it not, that so far we really have very little experience of this system, as we have only got 1907–8 to go on?—Yes.

9489. Would not that criticism be met by an answer which would at the same time be really sound, if we said we cannot at present foresee the time when you can name a limit to the reserve?—Yes. Sir Ernest Cable's question was what measure we had got in our mind, and he suggested a measure which was somewhat higher than the Government have hitherto held. I think the Government of India would entirely accept your statement of the position, that it is impossible to lay down any final and definite maximum for the reserve.

9490. Then you would rather refrain for the present from stating anything as a limit—even 30 millions?—My difficulty is that we are not stating a limit to what I may call a sympathetic audience. We are always endeavouring to get a somewhat better limit to the one which is being imposed on us from this side.

9491. If the Commission were to say, as I said just now, that we do not at present foresee the possibility of fixing a limit, is that not a position the Government of India would accept?—They would be delighted if the Secretary of State would accept that.

9492. (*Lord Faber.*) Do you not think that all the profit which is made on silver practically should go into the Gold Reserve? It seems to me that if the pendulum swings one way to-day it may swing the other way to-morrow, and gold depreciate and silver appreciate?—I think the ultimate drain on the reserve will never bear any very large relation to the total circulation of rupees in India. I do think, whatever the theory may be, in practice it will be related more to the demand of international trade, that is, to the balance of trade, than to the actual amount of uncovered rupees, and consequently I would not go quite so far as your statement of the case.

9493. I suppose you would not think it would never be possible in this queer world of ours that silver should become as valuable as gold—I can conceive it, you know?—No, but I think we are getting near to the days of Solomon—when silver was of none account.

9494. (*Sir Shapurji Broacha.*) The rupee in India is protected to the extent of one-third, and do we not take off that protection in regard to the so-called redundant rupees when we stop accumulating gold in the Gold Standard Reserve?—Yes; then we have not got absolute and complete protection.

9495. Would you say that that protection should never be lost sight of and should never cease?—The question, to my mind, is whether the whole currency wants protection.

9496. You have something in fiduciary securities and so on, and anyhow it is protected to the extent of 66 per cent. if anything happens?—Yes.

9497. Of course, accumulating gold in the Gold Reserve implies a ready and certain security?—I quite agree.

9498. When you say that 10 millions sterling should be in liquid gold, you mean, of course, that the other 20 millions should be in short-dated and other securities?—Yes.

9499. But then, suppose there is a war, you might not be able to sell. Indeed a witness here has told us that you cannot sell high-class securities to the extent of 10 millions?—I fancy there would be some considerable loss in the event of a tremendous calamity of the sort you contemplate.

9500. Are you not bound to get absolute security of exchange?—I confess it seems to me somewhat wasteful to hold the whole of our Gold Reserve in sovereigns permanently shut up in vaults, and I think the additional interest which we get on that part of the holding

* *See* Appendix XXXVII, page 701.

which is invested is a rather valuable reserve, so to speak, against loss on realisation.

9501. Is not your first argument sounder than now, when you said that other nations were not straining for interest, and why should we?—That was certainly urged.

9502. You know that the Government of India have changed their opinions since?—I do not think the Government of India have changed their opinions. I think they have had to bow to necessity.

9503. Why should we strain for interest when we want to make absolute security for exchange? Why fix a limit and put two-thirds in securities because the 10 millions would not last you for six months?—Perhaps not.

9504. (*Chairman.*) I gather that you will not quarrel with any recommendation from the Commission which tends to increase security?—Certainly not; that is exactly my position.

9505. And that in so far as you have suggested any limits, they have been minimum limits rather than maximum limits, in your mind?—Quite so.

9506. I want to ask you a question in connection with the relations between the Government of India and the Secretary of State in Council, as to which you made a very interesting and important statement. In the course of the examination of another witness it was stated by him that the probable necessities of the coming year were the subject of detailed correspondence between the Secretary of State and the Indian Government, and that in anticipation of the presentation of the budget the needs of the year were forecasted, and the respective parts which the Government of India and the Secretary of State in Council were to fill in meeting them were settled. So that at the time the budget was introduced it had been arranged between the two authorities what debt it would be possible to pay off in London, if any, or what fresh loans would be required to be raised there. Suppose the budget year turns out much more favourably than had been anticipated at that time, it might alter the requirements. The growth of Indian revenue might render unnecessary borrowings which had been contemplated at the commencement of the budget year, it might enable larger sums to be paid off than had been supposed possible at that time. If such a state of things arose, do you think that under the present circumstances the possibility is necessarily brought to the notice of the Secretary of State in Council by the Indian Government?—I think it is. We have a somewhat elaborate machinery for presenting to the Secretary of State in Council the progressive movement of our finances.

9507. The witness whom I have mentioned was Mr. Mitra, who told us that returns were regularly sent which would give to the Secretary of State all the information available to the Indian Government at the moment, but that it was not the practice for the Secretary of State, when once the programme had been settled, formally to consult the Government of India before actually a new loan, for instance, was issued?—That is correct.

9508. I think there has been evidence to show that perhaps—I am speaking now from memory—in 1911 it would have been possible for the Secretary of State to pay off debt which he in fact renewed, and again in 1912 to have avoided the issue of a loan in London; that in 1911 the budget was turning out so much more favourably than had been anticipated that by the time he renewed some 1½ million of debt there was money available to pay it off. Do you think, if it were a regular practice of the Secretary of State to invite the opinion of the Government of India before actually renewing or issuing a loan, it might lead to greater economy?—I certainly do. I have no desire to criticise the methods at present in force, but I would like simply to say this, that we do send every month information to the Secretary of State which might enable him to judge of the movement of our cash balances and to modify his programme in borrowing accordingly. There is, however, this much to be said also, that in recent years the Secretary of State's practice has been to raise his large sterling loans immediately at the beginning, or even a little before the beginning, of the financial year, so that the figures before him then, and the only figures before him then, are our own budget estimate of the situation.

9509. I had in mind a particular case in December 1911, when there was a million or so of Bills renewed. I think there has been a good deal of evidence to show that experience had accumulated by that time which was sufficient to render that unnecessary. I wondered whether it would not be desirable that there should be a formal opportunity, apart from anything that may pass in private correspondence, for the Government of India to express an opinion on occasions like that which might be different from that which it had expressed to the Secretary of State before the opening of the budget year?—With regard to this particular transaction the Government had, I think I may fairly say, pressed the Secretary of State to consider the possibilty of a larger withdrawal of India bills. It had done so, however, at the beginning of the budget year, because it was perfectly convinced that the year was going to turn out a great deal better than from the ways and means programme it appeared the Secretary of State imagined. The theory always has rather been that inasmuch as the Secretary of State leaves us to advise him and accepts our advice in regard to the state of the Indian market, so we ought to leave him very largely without any criticism in regard to his management of the home market. Nothing that I have said ought to be taken as in any way deprecating a much more frequent and intimate communication between the two authorities in regard to the progress of the year's business.

9510. You quite agree with the evidence given by Mr. Mitra to the effect that he thought some freer communication under circumstances of that kind would be useful?—I quite agree.

9511. I want to turn for a moment to a question that was put to you by one of my colleagues and to the answer which you gave us. You were asked, I think, if the Government sold Council Bills below gold point, would they be encouraging rupees? And your answer was, Yes, in the sense that you prevent gold coming in?—That was so.

9512. Suppose the Government did not sell Council Bills, gold would go in; that is your view, is it not?—Yes, so long as exchange is favourable.

9513. I want to know what you think would become of that gold when it got to India. Would it be tendered at your treasuries for exchange into rupees?—I think a very large quantity of it would be.

9514. And it would then accumulate in your treasury?—It would be to a large extent transferred from the treasuries to the Paper Currency Reserve for rupees which we would require for our treasury purposes.

9515. And if it accumulated to too large an extent, you would have to ship it home to England?—Yes.

9516. Do you not think then that the practice of the Government of India is more conducive to the necessities of India?—I think it is more conducive to the interests of India; I think it is more economical, and I think it gives us warning of our commitments which otherwise we should not have.

9517. And you approve of the system by which the Secretary of State does not hold out for an absolutely fixed figure of 1*s.* 4*d.*, but follows the market?—I personally do.

The witness withdrew.

Mr. MORETON FREWEN called and examined.

9518. (*Chairman.*) Of course, we all know you have taken a great interest for many years in currency questions, in particular, I think, in the past developments of Indian currency questions?—Yes.

9519. You have offered, in a communication you sent to me, to make a statement to the Commission which may be the subject of any questions which we may wish to address to you subsequently; I should be glad if you would make that statement now?—If I am right, the Terms of Reference to your Commission point to the desirability of advising whether the proposals of the Fowler Committee, which were consequent upon the findings of the Herschell Committee, are "conducive to the interests of India," and whether the departure from an automatic currency to a managed currency is, however convenient in the book-keeping department of the Government of India, conducive to the interests of the whole community. Although I am quite aware that there is something to be said on the side of a managed currency, it seems to me that its disadvantages, which are, to my mind, growing all the time, will inevitably force the reconsideration of the question at a much less opportune moment than to-day. I would just say this—in anything I say about either the Herschell Committee or the Fowler Committee I should like it to be understood that I speak with respect of both bodies, but since the days of the Herschell Committee we have had an enormous number of object lessons of the utmost importance which that Committee did not have for its guidance as we now have. You will recall that on the very heels of the report of the Herschell Committee, silver fell in a single month, June 1893, nearly 9*d.* Then again, there was an awful fall, the greatest fall in all the history of the metal, in the year 1907–8; silver has never fallen quite so fast in a period of 16 months as it did then. Therefore, the Royal Commission sitting here has had opportunities of studying the results of a *débâcle* in the exchanges with all Asia such as the Fowler and the Herschell Committees did not possess.

I may say, as you were good enough to remark, that I have taken a very lively interest in this question from the first. I was at Washington when the Bland Act was passed in 1878; I heard all the arguments for and against silver. I came to the conclusion that the prosperity of the world's trades, our western trades as well as Asia's, was very largely contingent on steady, and, I believe also, high rates of exchange for silver. After all, you have got 900 millions of people who know only silver, who make all their reckonings in silver; and if that exchange falls out of sight, as it has fallen time after time in the last 25 years, it makes it impossible for the owners of silver to buy gold bills, and thus buy our goods. Time after time the exchange for silver has fallen to such a point that practically all business relations of the importing kind with Asia have been suspended. I will take the lesson of 1908, which so nearly destroyed your new-fangled Indian currency system. The price of silver fell with such rapidity that it became impossible for Bombay to sell to China, whereas during the previous two years the rates of exchange, because of the enormous silver purchases of the Government of India, had enabled the United States and Europe to export enormously to Asia. The ships were running out from the various ports on the Pacific Coast loaded, because the rates of exchange were so high, and the merchant in China was enabled to buy lumber from Oregon, or steel rails or cotton goods or flour. The low rates at which the Orientals bought gold exchange on any of those Pacific ports, or on New York or Glasgow or London, was such that the export trades to China were extremely brisk. Then the Government of India, having bought actually more silver than was being produced by all the silver mines in the world, if we allow for the consumption by the silversmiths, went clean out of the silver market; and the result was the greatest collapse in exchange that we have ever known. Then we noticed all down the Pacific Coast that whereas the ships, Mr. Hill's ships for instance, had been running out from the port of San Francisco to Asia full and had been returning at the high rate of exchange empty, now they were running out empty and returning with full cargoes of pig-iron. Every sort of export from Asia was enormously stimulated in 1908–9 by the great fall in silver; the exports, as we said, of pig-iron, pigtails, and pigs were unexampled. I was at Washington, and Mr. Secretary of State Root sent a circular to all their Consuls in Asia, a very short circular, asking what had been the effect on trade of this fall in silver. The consular replies all came in to the same effect. There had been an earthquake in the exchanges and the export trades from the United States had dried up. Mr. Secretary Root was kind enough to send me duplicates of the originals; these are at the service of your Commission. I will take this instance. The American Consul at Chefoo wrote:—
"The present rate of exchange is a check to American
"Asiatic trade so far as exports from the United
"States are concerned. Commercial agents tell me
"that they can import nothing. American flour has
"stopped coming. I am told that many American
"exports have never been cheaper to the foreign
"buyer than at present, and that therefore our
"exports ought to be increasing, but a comparison of
"the rate of exchange for last year and now shows
"that, in order to equalise the cost to the foreign
"buyer of $100 (gold) worth of goods, they must now
"be sold for $80 (gold). Thus it is seen that unless
"a reduction materially over 20 per cent. of last
"year's price is made American producers are not
"able to hold out any financial inducement to their
"Chinese buyers, as the extra items of freight and
"insurance paid in gold would compel a discount from
"the last year's price of at least 21 per cent." Read this evidence of Sir Thomas Jackson, the Chairman of the Hong Kong and Shanghai Bank, which he gave before the Singapore Commission in 1902. Sir Thomas Jackson is a man, in this connection, of perhaps the widest experience in the world, and he treats this question of the relations between exchange and exports and imports as self-evident. He says in reply to a question of Sir David Barbour, who was the Chairman—"I was in Shanghai in 1867, then the
"only items of export were tea and silk. Now the
"low exchange has enabled them to export all sorts
"of things—hides, tallow, wax. In fact, in a ship of
"6,000 tons you will find tea and silk not five per cent.
"of the cargo. There are a hundred and one articles
"exported from China now that were impossible to
"export 30 years ago. (*Q.*) Do you think the advan-
"tage is permanent?—(*A.*) I think it will tend to
"increase as time goes on."

The point that I have been referring to is really a question which is not the concern of this Commission so much—the question of the exports falling, which means produce falling, when the exchanges fall. In India which has got now this wretched exchange practice with an artificial rupee, it seems to me that the fall was something exceptional, and I want to ask the attention of the Commission to the effect of the great fall in silver at times of scarcity or famine. Before the Herschell Committee this question was gone into carefully—the question of what would happen in times of famine if the bullion reserves of the natives parted company with the rupee, so that they were no longer able to convert 180 grains of silver into a rupee. The evidence before the Herschell Committee as to this was extremely important. Witness after witness looked ominously at the future if the value of the rupee and the value of bullion silver parted at all considerably from the then parity. I say this because we were all at that time very much in doubt as to what would be the effect on the price of silver bullion of the closing of the United States mints and the Indian mints. I held the view that there would be, as there has been, a great hiatus between the rupee and silver, and my writings at that time were to that effect. I had been in India twice for the purpose of studying this question, and I made certain there would be a great fall in silver, no

matter what the conditions of silver production were. But many of the best witnesses before that Committee did not hold that view. I used to lunch not infrequently in those days at the Bank of England, and I remember three ex-Governors, Mr. Lidderdale, Mr. Hucks Gibbs, and Mr. Grenfell, were all ardent silver men. Their view was that if there was anything like a suspension of coinage in India, and also in the United States (the suspension of their Sherman Act), that what has happened would happen, namely, that silver might permanently fall one-half; but the majority of the directors of the Bank at those lunches held a contrary view. Mr. Goschen's brother, for example. Mr. Goschen used to be annoyed when we suggested it. He would say, "No, the production of "silver to-day is the result of this artificial demand "by the United States for two million dollars a month, "and if you shut off that demand the mines will "close down, and presently the exchange will recover." You will see what the Herschell Committee say in paragraph 150 of the proposal to restrict the Indian coinage. "The scheme might, however, be so modified that "the exchange could not immediately rise above its "present level. It might be provided that the mints "should be closed to the public for the coinage of "silver, but should be used by the Government for "the coinage of rupees if required by the public "in exchange for gold at a ratio to be fixed in the "first instance not much above that now prevailing, "say, 1*s.* 4*d.* the rupee. Any fear of a considerable "rise would thus be allayed, and any evil effects of "such a rise prevented. Moreover, even if silver fell, "the divergence between the nominal and the in-"trinsic value of the rupee would not be so great as "if exchange at the same time rose. There would "be these additional advantages: first, the currency "would not cease to be automatic." There has been no pretence that the currency since their Report went in and was acted on, has been in any way automatic. It has simply been managed at the whim of the latest official sent out from home. One man would come along and stuff the currency, the next would starve it—there has been no plan at all, nor is there to-day, but always some fresh experiment advised—a gold mint, prohibitive duties on silver bullion—anything or everything. To return to the Report: "There would "be these additional advantages—first, the currency "would not cease to be automatic. Next it would be "a less violent step than closing the mints altogether. "They would practically remain open subject to cer-"tain conditions. It would be the smallest departure "from the *status quo* which could accomplish the "object the Government of India have in view. "Besides these advantages there would be the further "gain that it would leave the volume of the rupee "currency dependent on the wants of the people of "India, and the fact that rupees might continue to "be coined would tend to prevent silver falling as "much as would be the case if it were supposed that "the coinage of rupees was to cease altogether." Further, the Herschell Committee talk of the closed mints as "tentative": The whole proposal was a tentative proposal, and if it did not work it was to be reconsidered. They said, "We do not feel ourselves "able to indicate any special time or contingency "when action (the closing of the mints) should be "taken." And again they say, "It is obvious that "nothing should be done prematurely or without full "deliberation." The whole of the paragraphs, which perhaps I ought to read, were pointing to what was going to be done at Washington. The Herschell Committee said—I may trust to memory—it is quite evident that the Government of India think something very serious is about to happen at Washington, that the Sherman Act is going to be repealed, and if that Act is repealed the consequence, as the Government of India see it, will be most serious. We will not allow that Government to drive our Home Government in any direction, that means an international support for silver; and this being the case it is impossible that we can shoulder the burden of saying that the Government of India must not close their mints if they think some awful crisis is at hand. They therefore say—it is a permissive statement of the Herschell Committee—that if these dreadful things are going to happen in Washington, it may be well for the Government of India to be in advance of Washington. All I can say is, and the evidence is overwhelming—I can get it from any of our diplomats or consulars who were there at the time, that there was not the faintest chance of the repeal of the Sherman Act had the Indian mints remained open to free coinage. The new Congress had come straight from its electoral bodies, pledged to free coinage. It was a Democratic Congress which had gone through the elections of 1892 triumphantly declaring that silver was the money of the Constitution, and that nothing should be done to affect it, and that they were to have free coinage. It is quite true President Cleveland was against it, but there was a declared majority in both the Senate and the House of Representatives in favour of free coinage; and everybody in Washington knew that there was not the remotest chance of their suspending the silver purchases under the Sherman Act unless the Government of India closed its mints. Then in June came the panic closing of the Indian mints, and silver fell about 9*d.* in three weeks. There was a financial crisis all over the world; and the argument was used irresistibly at Washington that this frightful disaster was due to the fact that India, finally and for ever, had turned her back on silver. One-fifth of all the silver that had been produced by all the mines in the world since the discovery of America was the property of our Indian wards, and yet we had demonetised this great national asset at its home! That gave the opponents of silver in Washington an argument which they took every advantage of. I cannot help saying, that behind the well-intentioned Government of India—always well-intentioned and always honest and honourable—there were and there now are great speculative interests concerned to create now a fall or now a rise. Silver has been an enormous prize in the money market. I read the Press very carefully, and I am perfectly convinced that the Press in 1893, even Reuter's, had been got at. There was no corruption or anything of that sort—but even Reuter's were declaring in cables to India that from Washington was to come this deadly blow to silver. I have a letter here from somebody of importance at Simla, dated the 5th June 1893, when the report of the Herschell Committee was actually on the sea, going out, and I have the permission of the writer to read it. The writer declares, "I have, moreover, just seen a "Reuter's telegram which points more strongly than "anything I have lately seen to the repeal of the "Sherman Act. We may, therefore, have a further "drop in the exchange, and we are waiting with breath-"less anxiety the arrival of the report of the Herschell "Committee." No sooner was the report received than the mints were closed. A cable from Simla to our embassy at Washington, where Congress was not in session, would have elicited the fact that there was not the remotest chance of the repeal of the Sherman Act; that, on the contrary, only the closing of the Indian mints could prevent the democratic majorities from proceeding to free coinage in the session at hand. I am convinced that the whole of this great disaster to silver was the result of a plot—that some people were getting rich out of speculations in silver securities, and the Press was used for the purposes of the anti-silver party. You will remember that there was something like 90 crores of rupee paper actually quoted in this market in sterling, the price of which, in consequence of the fall of silver, fell some 17 per cent. through bear sales. There never has been on the bourses of the world quite so fashionable a gambling counter as silver. Harbour trusts, dock trusts, and railways in the East—all those corporations were collecting their revenue in silver and were transmitting that silver at an uncertain rate of exchange to pay gold interest to the holders of stock here—these securities were all at the mercy of these changes in the silver market.

I think I have got to the point where it seems to be clear that what the Herschell Committee advised was not at all what the Fowler Committee advised. The Herschell Committee says, "Try this experiment;

" we do not think we are justified in over-riding the " Government of India, therefore, just try it and see " what happens. We do not think that the rupee and " its bullion value will part company very much, and " even if bullion falls, it is not likely to be a very " serious fall. On the whole the evidence of the " witnesses before our Commission leads us to think " that it will be better for the people of India to put " up with a managed currency than to have additional " taxation imposed." The Herschell Committee asked every witness, Which do you think the people of India will feel most—the closing of the mints and a rise in exchange which may affect their exports, or additional taxation? The evidence of many witnesses was that the people of India, 300 millions of them, would never know that anything had happened. It might be done safely because they would never understand it. A most dangerous form of legislation. But what was the evidence of some of those, whom I consider very important witnesses, read to-day, the evidence of Mr. Hardie, Mr. Gardner, Mr. Beith, Mr. Stephen Ralli, or Sir. Frank Forbes Adam? I will just read what Sir Theodore Hope said. At Q. 2244 of the Herschell Committee he said, " Besides that, " there is a very important objection to these devices, " namely, that they would create a vast, inconvertible " token coinage, an objection which is obvious. Then, " finally, what I particularly think about them is the " political danger; that they would do all I have " anticipated in an impalpable, mysterious sort of way " —a way that would be quite unintelligible to the " ignorant masses, who would be perplexed by this " fall in the value of their produce, by this altera- " tion of values throughout the country, without " knowing exactly to what to attribute it; and that, " therefore, there would be a vague feeling of uncer- " tainty and of apprehension as to the future which " might become extremely serious and might lay " the seeds of an universal discontent which might " bear fatal fruit whenever a national crisis afforded " the opportunity. We should then find, as we " did at the time of the Mutiny, that for some " mysterious reason whole provinces were disaffected, " they did not exactly know why." I recall what Sir Robert Giffen wrote to the "Times": "The " highest political issues are also involved. One of " the most dangerous things for a Government to " do is to tamper with the People's Money. Is it " certain that the Indian Government can go on " long with its present ideas regarding money, with- " out producing the gravest complications in the " government of India itself?" These words are precisely applicable to our own times.

I should like now to revert to my *précis*, and to discuss the question of the hoards of silver in India. One of the witnesses before the Silver Commission* in 1876, Mr. Mackenzie, said then what I may say was quite borne out by my own experience in India. I went to India for two winters to study this question, and I am sure that any gentleman who has studied this question on the spot, whether in the native cities or in the interior of the country, will bear out what Mr. Mackenzie said. "In every large village there is " a silversmith, and as soon as a man gets a few rupees " he employs the silversmith to come to his house and " make the ornaments. Although the peasantry in " India have poor houses, yet the amount of ornaments " they have would exceed in value the furniture and " utensils of the same class of peasantry in England." For hundreds of years their whole thrift had been the conversion of silver coins by melting, to bullion or ornaments. Silver came to them through coins—coins previous to the coinage of any rupees, all sorts of strange primitive coins. When the rupee came, first from the Company and then from the Government and the Native States, the ryots, having no cash-boxes and no bank accounts, were in the habit of sending for the silversmiths, and I have seen them, and so has everybody who knows India, welding on the bangles in the bazaars. The silversmiths would take the rupees, melt them up, weld them on the arm or the ankle of the man or woman, and charge an anna or two for the job. The result of closing the mints was to destroy the inter-convertibility of bullion and rupees, which was of immense importance, particularly in times of famine. In the first place, as I have mentioned, the reduction in value, whenever the silver is wanted whether to meet a famine or for the purposes of paying taxes, is a terrible disaster to the natives of India. In famine times—let us go to famines first—they used to go to their bunnia or village sowkar and they would cut these bangles off, and the sowkar would weigh them and give them a loan of rupees at a rate that varied according to the pressure of the demand for rupees or the pressure of the times. But still they could always get par, a rupee for a tola of silver, and the sowkar knew that if he had got 100 tolas of silver from the native, it was always as good as 100 rupees to him, because he had only to send it to the nearest mint for free coinage. The sowkars did not, indeed, send these native ornaments into the mint unless they were themselves pressed for money; they held the ornaments, and they collected their interest. It was only in times of actual famine that a trickle of these silver ornaments would reach the mints at all, as generally the sowkars had sufficient hoarded balances of rupees. If I were a peasant and wanted 100 rupees, the sowkar would retain my bangles or my ornaments, often heirlooms which I valued, until after I had got my crop in, and then I would go and ransom them. When you had a famine like the great Bombay famine, the arrival of ornaments at the mints, this first famine reserve, was the announcement to the Government of India that the famine was becoming acute. In the mint reports of the Government of India for 1876–77, which are published in the Herschell Report, the mint authorities say: " In transmitting the accounts for 1875–6 " —that was the year before the famine—" no reference " was made to the quantity of country silver and " ornaments tendered for coinage by native merchants. " This was because the quantity tendered was not so " excessive as to render any special remarks necessary. " It may not, however, be uninteresting to show what " was received during each of the twelve months of " the years 1876 and 1877, as the statement probably " indicates with a certain accuracy the commence- " ment, progress and severity of the present famine, " and the effect it has had." Then the official figures follow. In May only 1,100 rupees weight of ornaments were presented, and in December it was a lakh; in September of the following year, 1877, as the famine got a more terrible grip, it had become 19 lakhs. There was a total of 124 lakhs coined for the year at this single mint. The mints at that time coined more than four crores. Sir David Barbour, who was a member of the Gold and Silver Commission, went into the chair and gave evidence. He was asked by the chairman: "You tell me that in times of famine " hoards are invaded," and he said: "That is certainly " the case." Then he was asked: "Have you any " estimate of the amount which was extracted from " these hoards in any given district during a period " of famine?" In reply to that question he said: "It is quite impossible to say. All that we know is " that certain amounts were brought to the Bombay " mint for coinage, a certain amount in the form of " ornaments; but that must be very much less than " the amount that was brought out of the hoards, " because the man who drew silver from his hoard " would ordinarily pledge it in the first instance with " the native banker or money lender, and the native " banker might either sell that silver again, if he " obtained final possession of it, or he might send it " to the mint." I was sitting in the Senate at Washington in 1898, when a letter was read out to the Senate, signed by Mr. Forbes Mitchell, a responsible merchant in Calcutta. At that time silver was still a burning issue in America, and the idea that England had refused any sort of international settlement of this great question, notwithstanding that our wards in India had 2,000 millions ounces of silver to buy food, the value of which was contingent upon its reception at the mints, made a very painful impression on the Senate. This letter was read to the Senate by one of the Senators

* C. 5099, &c.

from Idaho. The writer said: "Most bitter are the "complaints against the action of the Government, "and frequent the predictions that the historian of "the future will have to brand that Act as one of the "most cruel and unjust pieces of legislation ever "enacted by any civilised Government. I will give "your readers one instance out of many which came "under my notice, of how the closing of the Indian "mints is robbing the natives of their savings. In "the city of Allahabad I met a man who had come in "from one of the most severely famine-stricken districts "with silver jewellery weighing 2,000 rupees, which in "former years he could have sold for about 1,980 rupees, "but, owing to the mint being closed, the silversmiths, "who are the bullion merchants of India, offered him "only 33 rupees for 100 rupees weight of silver. "When I remonstrated with the silversmith, his reply "was, 'What can I do? It is not I who wish to rob "'the poor of their savings; it is the Government "'who have closed the mints, and will not coin silver "'jewellery into rupees. In these famine times these "'ornaments are of no use to me; I cannot eat them!' "That is only one case out of thousands. The gold "and silver smiths of India are proverbial as the "greatest usurers in the country." There was much more in the letter reflecting on this tampering with the Indian currency. Here was a loss of something like 8 annas on each rupee. The head man of two important villages near Allahabad, which was in the worst part of the famine district, had brought in all the little hoards of the villagers, and their bangles and bullion, in order to turn them into rupees. The evidence went to show that he had been on the same errand in a previous famine, and expected in this case to find that he could convert his 2,000 tolas of silver into 2,000 rupees to carry back food. Mr. George Handasyde Dick, a well-known Glasgow merchant, and who had spent most of his life in India and had studied this question closely, pointed out that that famine of 1897 was far less a food famine than a money famine, that at no time was the price of rice higher than 14 seers per rupee, which was at that price not much more than the then normal price up country, and that it was possible to pull a man through a famine for 1 anna per day. Here from two villages 2,000 rupees weight came in and were sacrificed at a loss of some 8 annas for each rupee. You may guess how enormously the mortality rate must have risen in those two villages, and what the villagers said of the Government of India. Here were these natives who have got 2,000 million ounces of silver, one fifth of all the silver known in the world, which, when the mints were open, they could freely exchange into rupees to buy food, but which at the time when they needed it the most, at the famine time when the price of food rose then these poor fellows had to sacrifice their savings at the rate of 3 rupees weight of silver for 1 rupee. I speak feelingly about this question, because I was asked in Washington recently to give evidence before the National Monetary Commission. I have been in the habit of going over there to give evidence before these commissions from time to time. On this occasion the question was put to me of the disaster caused by the closing of the mints I had, I confess, no reply. It seems to me that the peasantry and the whole population of India had been encouraged to melt down their rupees up to 1893—there were most valid reasons why the melting down of rupees was of immense economic importance to India. The natives were assured—I cannot find the despatch, but I know it exists because I have seen it, and it was in a despatch of the Government of India written by Mr. Barclay Chapman, their Financial Secretary, and Mr. Chapman told me himself he had written it—that the mints never would be closed. This despatch was written, I think, in or about 1880. It was an actual breach of faith to close the mints after they had been so assured, and relying on that assurance had continued to melt down the currency.

The interconvertibility of rupees and silver is of immense importance. In the first place, it diminishes the necessity for police. A rupee can be stolen. The natives have got no cash boxes, and they have to bury their wealth or carry it on their persons. You can only steal rupees when they are in the form of bangles by a direct frontal attack. That is a point which I believe is of importance. If you are going to throw sovereigns broadcast into India, a country where up-country the rate of wages is 3 or 4 rupees a month, the inducement to steal anything as valuable as a sovereign will be so great that the possessor of a sovereign is unsafe until he has melted and bangled it, the neighbours will say, "So and so has got a sovereign; let us see if we can find it." It was extremely important, therefore, and is now, for the peoples of India that the savings, the result of their thrift, could be made secure as ornaments for their persons. The second point—no less important—is that it conduced to thrift and sobriety. A man with savings in the form of rupees will very likely go and spend them in the grog shops; but a man would naturally not go and drink if that involved cutting a bangle off his arm or his wife's. Thus the thrift and sobriety of the Indian people were greatly subserved by the fact that rupees were silver bullion and silver bullion were rupees at the demand of the owner.

But the most important point resulting from this melting down practice was the extraordinary immobility of prices it provided throughout all India. Whenever there was a rise of prices in Europe, then the exports of India would expand into Europe because of these higher prices, and the result was at once a great flow of silver to India to pay for enlarged balances of trade. The result in any other country where prices respond through the action of the exchanges would be that prices would rise and fall. But not so India. The perpetual melting up of coins contracted the currency and kept prices stationary. I should like here to mention Chevalier's point as showing the immense importance to the currency of Europe of an open mint in India. Michel Chevalier points out, and Jevons and others accepted his view—it was so evident—that when an immense mass, something like 70 millions sterling of gold, came, in a few years, from the mines of Ballarat and California, the inflation of our currencies and the rise of prices was considerable, but economists were surprised that the rise of prices was not greater. Chevalier said, "Silver is a parachute, which has broken the fall of gold!" This great deluge of new gold was calculated to inflate prices in Europe, but as fast as gold came into Europe it gradually raised prices in Europe, and thus the exports from silver-using Asia—those currencies, not being affected as here by the new gold—were magnetised by our rise of prices. The price of wheat, the price of jute, and the price of all Asiatic stuffs—for not only India, but China exported—was magnetised by our advance of prices. In return for this immense unexpected balance of trade, Asia began to draw away our silver money, and as a result she sucked to the Orient all the silver in the French currency. At the time of the commencement of the gold discoveries in California, the French currency was two-thirds silver and one-third gold. The propulsive power of this rise of prices in Europe, to drive the silver of the Latin Union to the melting-pot and thus distribute it all over Asia, was such that, at the time the gold of California and Australia was exhausted, nearly all the silver of the Latin Union had passed into the melting-pot. The result was that splendid expansion of trade in India and China which was the most marked feature of the 'sixties. If only the mints of India, instead of being closed in 1893, had remained open, the prodigious expansion of not only Indian, but China trade, drawing and draining inward all this cheap silver, would have once again been the economic feature of our time. The closing of the mints, as I say, has aborted, has destroyed, the greatest "boom" that India would ever have experienced in her history. You will remember Mr. Goschen, in the House of Commons, when this proposal to close the mint was first made by the Indian Government, congratulated the Government of the day. He said he was glad that they declined a proposal which "ought never to have been made."

Mr. Goschen's view was that the whole suggestion was neither honourable nor politic, and there was no higher authority than he. The author of "The Theory of Foreign Exchanges" knew more about this question than anyone at that time; and Mr. Goschen said, "If, "as we believe, the flow of the new gold from the "river-beds of California and Australia was so valuable "to the trades of Europe and so vivifying, why should "not the flow of this great mass of cheap silver into "Asia be equally for her benefit and for ours?" If India had kept the mints open, she would have been unable to assemble ships enough in the harbours of Bombay and Calcutta to carry her produce to Europe. She would have drained our silver into Asia, where it would have been sufficient to raise prices and wages; but once again this great contraction of the currency through the melting down of the silver coins would have stepped in, rupees would have settled down again into a million hoards, and this exchange crisis would have been at an end long since. I cannot get over what was done! I know what gentlemen from India say. I know they come here and say, "We hated this scheme; "we say this currency tampering was economically "wrong and was bad for India, but we think, in view of "what has happened to the trades of India, good has "come of it." On the contrary, I am convinced that this Commission can satisfy itself that, but for this tampering with the currency, but for the refusal to permit India automatic exchange, you would have had the most prodigious conditions of prosperity in India that you have ever known.

9520. That, if I may say so, is the real point to which you should address yourself, or rather the point to which you should address yourself most. Though it may have been necessary for the purpose of making your views clearer to us that you should make this introductory statement, the point that you have to prove now is not that it was a mistake to close the mints when they were closed, but rather that these people are wrong who say we were against the closing of the mints at the time, but, having regard to all that has happened, we should be against the opening of them now. Supposing you could convince the Commission that it was wrong to close the mints when they were closed, it would not follow that it would be right to reverse the decision now; but that is, I understand, the case which you want to make and which I am anxious for you to direct our attention to?—I quite agree that that is exactly the position. The general effect of the various experiments is supposed to have been good. Some of your witnesses have produced figures of the expansion of exports which on the face of them seem good. On the other hand, I maintain that the improvement in Indian trade has not been *pari passu* with the improvements in the world's trades. That, I think, is the point which should influence the Commission. If we could show that India had got less than her share in the last 20 years of the common good, that is an argument which would be of influence.

9521. (*Sir Shapurji Broacha.*) I myself, like you, was a rabid bimetallist, but we have to submit to circumstances, and the important circumstance is that the production of gold went up from 19 millions to 100 millions. The Government of India from 1873 to 1892 were anxious not to demonetise silver, and they asked all the Governments to help them in keeping up silver in its currency. The Government had to do their duty to their subjects, and that duty was to have the currency or measure of value so regulated that one could transfer that value in India to any other country merely at the cost of freight, insurance and commission; but it was necessary that the civilised nations of the world should combine to come to a unanimous view about currency. I remember a speaker betting in 1889 that in the year 1905 the world would be bimetallist. He lost his bet. He stood up and said, "My friends, I should have been right, but I cannot "fight Providence. When I made that bet the annual "production of gold was 19 millions, now it is 100 "millions, and so, of course, I am defeated." Until that production goes down we need not speak about bimetallism. India has been helping silver, and she coins as much silver now as she did in times of yore, so you must wait until the production of gold is reduced to certainly one-half or something like that?—Pardon me, I have the figures under my eye at this moment. Your view is that because there is more gold the trade of the world can be carried on on a gold basis, is it?

9522. We are now in the land of prophecy. What would happen under certain circumstances? Your suggestions would spoil the ratio of the transfer of gold from one country to another. The best thing you can do is to preach your views to the nations of the world, and India is ready to join you?—That is just the difficulty. I want to get back to my figures of gold supply and trade, but as you have opened up a wider issue still I must remind you that representatives of the United States and France came over here and arranged with Lord Salisbury, then Prime Minister, and the Government of the day, that the mints of India should be opened conjointly with those of France and the United States. I was cognisant of all those negotiations. Senator Wolcott was my great friend, and I was with him during those negotiations everywhere and at all hours. The various high contracting parties met in July 1897 at the Foreign Office here, the French and American Ambassadors and a representative of the Bank of France, I think its Governor was present. After their meetings at the Foreign Office, the two great Republics made this stupendous offer—that they should go in for free coinage at 1 to 15½ if India also would open her mints again. I have got Lord Dufferin's despatch here of 1886, in which he says, The ratio has nothing to do with us; the great nations who propose to open their mints shall have the control of the ratio and all we want is an international agreement; that will give us reasonable security that the exchange will be fixed. That had always before 1897 been the attitude of the Indian Government. Here then were the two great Republics, with 500 million or 600 million sterling of gold offering to open their mints to the free coinage of silver at 1 to 15½. The Chancellor of the Exchequer, Sir Michael Hicks Beach, a rigid and unflinching monometallist, who walked away from the final meeting with Senator Wolcott, said, "I suppose, as a matter of courtesy, "we must refer our agreement for consideration to the "Government of India." It was a sort of afterthought, as I was informed. So our Government telegraphed to India this extraordinary proposal, which took my breath away at the time, which had been advanced after full consideration by these two great countries, by France, the most scientific and the most efficient currency nation in the world, and the great United States, which in the previous year, 1896, had gone through their silver campaign. They said, "We will "open our mints to the unrestricted free coinage of "silver at 1 to 15½ if the Indian Government will "open its mints to the coinage of rupees." England was to do nothing: simply look on and approve and yet obtain fixed exchange for all her vast oversea trades! As I say, it takes our breath away to recall it all these years after! A proposal of this importance was defeated by Lord Elgin and General Sir George White, acting on the advice of Sir James Westland, their Finance Minister, a bookkeeper from New Zealand, the very man who the next year the Fowler Committee so utterly snubbed and disagreed with! What did these three statesmen know of the currency question? Here was a proposal that would give us five Mexican dollars for a gold sovereign and 11 rupees for a gold sovereign for a thousand years, but the Government of India refused it because, they said, a sudden jump in silver would destroy their export trade. I admit there is something in the point; but, I believe that the settlement of the silver question by a small monetary union is ready to hand to-day, and would settle the question for ever. I believe it can be done without any violent jump such as that in the exchange. I admit the Government of India were entitled to say, If we suddenly wake up and find exchange at 11 rupees to the sovereign, it will shut off our exports; but the reply is that India with an

exchange of 11 rupees to the sovereign during all the years between 1860 and 1870 had been more phenomenally prosperous than at any other time in her history.* She closed her mints in June 1893, the rupee fell from 15½*d.* to 11½*d.* Fell 4*d.* at a moment's notice, and yet she was afraid of a rise of 7*d.* I am afraid I have been rather discursive, but Sir Shapurji rather deflected my line of thought. I am obliged to him for doing so. I quite recognise the value of the argument that he advanced. However, I was trying to account for the mind of the Indian authorities. They say that India has been so prosperous under the gold standard that they would not like to go back to the free coinage of silver, even with conditions and safeguards. They apparently think that their trade has been more prosperous than the average trade of the world. I do not think so. This is the crucial question. Has the closing of the mints conduced to the interests even of India herself? The figures that are before the Commission which I have read are, I think, misleading; not only are they misleading, but they point to the great danger that India is now running into. The success of the gold standard experiment results from the accident of the great rise of gold prices in Europe since 1896. If prices had continued to fall, as gold prices were falling in all the western world until 1896, this experiment of the Government of India must have been attended long since by a great disaster. As long as prices rise here and are steady in India, the rise of prices here will of course ensure to India a much greater balance of trade. She can have any standard she chooses — she can have a diamond standard—under those conditions, the world continuing her debtor. But owing to the phenomenal situation to-day, silver prices in India are now rising much faster than gold prices are rising here, and the figures of the exports of India, which India's witnesses here are inclined to take on the basis of mere figures, that is to say, regarding only values and not volume, I think are extremely misleading. Of course if rupee prices rise 100 per cent., exports without increasing at all read as having doubled. Take Mr. Newmarch's figures in the blue book.† I take the exports. The exports of India for 1883 were 59 millions sterling; for 1893, 71 millions sterling; for 1903, 102 millions sterling; and for 1913, 164 millions sterling. It is clear that what you want to consider is not the value but the volume of these exports; you want to ascertain whether the volume has been maintained. As far as I can make out, although the official figures of the Government of India are not entirely clear, yet I think Sir Shapurji will probably bear me out that there has been between 1903 and 1913 a rise of at least 40 per cent. in Indian prices. I say that if that is so then the exports of 1913, which have nominally increased by 65 millions, since 1903 have not increased at all. If you take 40 per cent. off the exports, which were 165 millions, you get the volume down to 100 millions, which is a less volume than India exported in 1903. I believe that though India has progressed yet she has done a little less well than the average of the nations of the world. Taking now the world's exports and adopting the figures of Mr. Austen, the chief of the Statistical Bureau at Washington, I find these figures: I have not got the 1883 figures as the Washington statistics do not include them. But in 1893 the world's exports were 1,043 millions—these are the exports of what Mr. Austen calls the chief commercial nations. In 1902 they were 2,058 millions, and in 1912, 2,720 millions. The world's gold money in 1894 was 840 millions sterling; in 1906, 1,235 millions sterling; and in 1912, 1,500 millions sterling. Therefore, the sovereigns per 100*l.* of exports were for 1894, 80; for 1906, 60; and for 1912, 53; which shows a considerable contraction of the world's gold money in the ratio to the exports of international commercial produce. Turning now to the index numbers of prices, I find that although in 1894 there were 80 sovereigns per 100*l.* of exported produce, the index number of prices, according to the Washington authorities, was 67. When 10 years later, instead of 80 sovereigns per 100*l.* it was 60, the index number had yet advanced to 84; and in 1912, although the sovereigns per 100*l.* of exported produce were only 55, the index number was 94, showing that with the reduction of sovereigns in the world there was yet a great rise of prices, in proportion to the work done. This is the reply to Sir Shapurji's interpolation, is it not? I think that the question of prices is the most important question of all for India. I maintain that it is only the extent of the rise of gold prices which has enabled India to maintain a gold standard and has given her these favourable trade balances. If Indian prices are now since 1909 rising considerably faster than European prices, and particularly if we have a financial crisis, as many authorities anticipate in the next two years, you will have probably an unexampled fall of gold prices here, and, as you have got Indian prices enormously inflated, the balance of trade will go against India, even without any famine in India. That, I think, is the danger, if I have made myself clear. Everybody is aware that you can work any standard you choose, and the whole thing is plain sailing, as long as you have got a large export balance in favour of India. But that balance is entirely contingent upon a high and rising rate of prices here and a steady rate of prices in India. When I come to your note issues in India, I think it becomes fairly evident what has been the cause of this unexampled advance of prices in India. The currency of India has become inflated. Imagine for a moment that if prices in Europe instead of rising since 1896, as they have done, from 25 to 30 per cent., had fallen 25 to 30 per cent., and India's prices had risen, as they have done, perhaps 40 per cent., your gold standard would not have been worth six months' purchase, because the balance of trade would have long since turned against you. The balance of trade was against China always, and therefore the Chinese Government will never be brought to look at a gold standard. You can get in India one of these exchange gold standards, if and only if you can rely on a favourable balance of trade, but if with the rise of prices in India you have a fall of prices here—and I believe we are on the threshold of a great fall in prices—clearly the balance of trade will go against India so greatly that your gold standard will be absolutely unmaintainable.

9523. (*Mr. Keynes.*) Do you mean that while India and England are both on a gold standard, the level of prices in the two countries is quite independent?—Yes, quite.

9524. And there is nothing whatever linking the prices of commodities in the two countries?—No. I think the prices in India are clearly rupee prices, and not sovereign prices at all, any more than they are pearl prices. It is quite evident what has happened—I have no doubt you have looked into it. I take it from the composition of your paper currency that what has happened is that the hoarders of rupees are throwing up their rupees and sucking in paper. Just look at the dimensions of your notes. I can only read that evidence one way. There has been a good deal said by witnesses about the expansion of your note currency in India. In a country so poor as India,

* *Note by Mr. Moreton Frewen.*—The error of the Bimetallic Party was in our failure to recognise until too late that Great Britain before 1873 had done fully as much to secure a fixed rate of exchange for silver and gold as France herself had. True, France until 1873 was the world's money-changer. France gave on demand an ounce of gold for any 15½ ounces of silver equally to the merchant of Lyons or the merchant of London. But France did not necessarily give her own gold, and this because she had at all times, through the bill market, access to the Gold Reserve of the Bank of England. Any 15½ ounces of French silver currency melted and exported to Bombay and there exchanged against wheat or rice sold to London was a sight draft on the Bank of England for one ounce of gold so long as and only so long as the Indian mints remained open. Thus it was the open mint in India and the free gold market of London that until 1873 maintained the parity. All that Great Britain should ever have been asked to agree to at the various Money Conferences was to maintain those conditions which were still in being when the last Conference at Brussels adjourned and the action of which had during the preceding century secured fixed exchange.

† Cd. 7070, pp. 234–6.

where the rate of wages is 5 or 6 rupees a month, if there were a general demand for notes for currency it would be for the small dimensions of notes that would circulate. But just look at the actual dimensions of the notes being issued. In the last 10 years there has been an increase of 56 million rupees in 10,000-rupee notes and in the 5-rupee notes there has only been an increase of 8 million rupees as against 56 millions of the larger dimension. Mr. Newmarch puts down (Cd. 7070, page 250) the outstanding notes as what he calls active currency, but as a matter of fact, no 10,000-rupee notes, or 1,000-rupee notes, or, as I maintain, not even 100-rupee notes, in a country where the rate of wages is so low as in India, can be regarded as active currency. In the last 10 years the increase has been 56 millions in 10,000-rupee notes, but only 8 millions in 5-rupee notes. In 1912, last year, Mr. Newmarch's figures on page 240 (para. 9) of Cd. 7070 indicate that out of a total note circulation of 61 crores, 23 crores are in notes of from 1,000 to 10,000 rupees; and over 15 crores more are in 100-rupee notes. Mr. Newmarch, on page 250 of Cd. 7070, says that the notes in what he calls active circulation amongst the public amount to 44 crores, of which 23 crores are these 1,000-rupee notes and 10,000-rupee notes. What I infer from that—and I have no doubt evidence of it could be obtained—is that the men who had large hoards of silver rupees have been throwing up 10,000-rupees to be replaced by one note—in some safe hiding-place. The result is that you have an unexampled inflation of your rupee currency, and this has told its tale in inflated prices; and this must reverse India's balance of trade at an early date. Between 1907 and 1912 the note issue expanded from 47 crores to 61 crores, say 30 per cent., and Indian prices in the meantime rose about 40 per cent.—probably even more.

9525. (*Chairman.*) You spoke of an inflation of the currency; given the circumstances of India you would have expected the currency to grow, would you not?—Yes.

9526. And given a growing confidence in the stability and convertibility of the note issue, you would expect the note portion of the circulation to grow?—Yes, but not quite like this.

9527. (*Mr. Gillan.*) Is it your point that large notes have grown more than small?—Look at the figures which you will find on page 240 of Mr. Newmarch's statement (Cd. 7070).

9528. I have some figures here which seem to point rather in the other direction; this is the report of the Comptroller-General, which puts the figures in percentages. According to these figures the percentage of the 10-rupee notes to the total circulation in 1901–2 was 23·4 and of the 1,000-rupee notes (the Comptroller-General has not got the figures for the 10,000-rupee notes here) was 22·9; in 1911–12 the percentage of the 10-rupee notes is given as 32·1 as compared with the 23·4 in the previous year that I gave, while the percentage of the 1,000-rupee notes had fallen from 22·9 to 19·8?—I have not Mr. Newmarch's memorandum here, but I have a note here that he there says on page 250 (Cd. 7070) that there were in active circulation amongst the public 44 crores, of which 23 crores, according to his figures on page 240, were made up of 1,000-rupee notes and 10,000-rupee notes. If you look at the issues of the 10,000-rupee notes you will see that in 1873 there were only 576 in existence, and there are now 14,320. You cannot call notes of 10,000 rupees notes in active circulation.

9529. (*Mr. Keynes.*) I think you will find those large notes are mostly held by Government and the banks?—I do not think they are in the banks and treasuries to any large amount—there are 23 crores issued of 1,000 and 10,000 rupees?

9530. (*Chairman.*) On the other hand, take the circulation of the 5-rupee notes; they have increased in number in the same time from 310,000 to 2,529,000?—I have looked at the position of the 5-rupee notes, There has been an increase, as I pointed out, of 56 millions in the 10,000-rupee notes in the last ten years, as against 8 millions only in the case of the 5-rupee notes, accepting Mr. Newmarch's figures.

9531. What I do not exactly understand is the moral which you draw, or wish us to draw, from those figures?—What I think is happening is, that there is a substitution of coined rupees in hoards by large notes.

9532. Suppose there is?—If a man who had 10,000 rupees has put a 10,000-rupee note into his note case, and has thrown the 10,000 rupees into the active circulation of India, and if that has been done on a large scale, it will account for the extraordinary inflation in Indian prices.

9533. How can he throw 10,000 rupees into circulation? He goes to the Government to exchange those rupees for a note, that is, he takes a different form of token currency from the Government; but the Government cannot throw those 10,000 rupees into circulation until somebody else comes and asks for them?—The Government have done it; that is the reply. If you remember, at the time of the crisis in 1907 they had enormous stacks of rupees, not merely of their own coining, but old and antiquated rupees. The old rupees have been showing up a good deal more than normal, I am told. Of course, if a man does substitute a hoard of 10,000 rupees by a note, and if those rupees do go by some means into circulation, they would have a very marked effect on prices.

9534. This brings me to an expression which you used very early in your evidence. You have objected to the Indian system on the ground that it is a managed currency system and not an automatic one. I understand by that that you mean that the Indian Government controls in some entirely different method to that which is familiar to us, say, in England, the amount and the nature of the circulation?—Yes.

9535. But is that so? Has the Indian Government any power to put money into circulation except in response to a demand from somebody for it?—I think they have. Look at the position. Suppose, as was the case apparently, that they overcoined themselves?

9536. That is exactly the case I want to suppose. Suppose they do overcoin in excess of their requirements and through a miscalculation, what happens then?—Suppose they build a railroad to the moon, they have to pay wages for all the work done on the roads, and so those rupees get into circulation in all the country districts where they are building. They can inflate the currency to any extent by public works and in a hundred ways. I have suggested one.

9537. Then is it your suggestion that, having miscalculated the amount of silver normally required, or having their calculations upset by a change in the habits of wealthy hoarders who now hoard in notes instead of in silver, they find themselves in possession of a surplus of silver in their reserves, and then they say: We must get rid of this?—Yes.

9538. Do you really suggest that they thereupon set to work to build a railway in order to dispose of their surplus rupees?

(*Mr. Gillan.*) Where do they get these rupees from that are spent on the railway; do they draw on the currency reserve for them?—I was just going to point out. You remember the Buchanan Gold Loan in December 1908; the Government of India came to Parliament and said: We want a large gold loan for the purpose of building railroads, and it was granted. I do not think I am saying anything unfair when I say that they excogitated some sort of railroad requirements, and I have no doubt very useful and necessary roads too, but they really wanted a great many million sterling to buy their own rupees from their own reserve and to get them into circulation, but for the Buchanan plan I think the exchange standard was done.

9539. (*Chairman.*) In regard to railways, the only complaint we have had before the Commission from any of our witnesses hitherto is that there are not enough railways in India?—By all means; if they will continue to build railways instead of letting rupees congest in the treasuries, I am heartily with them. But how are we to account for this somewhat phenomenal rise of prices within India which everybody has drawn attention to? It must have something to do with the currency clearly. It looks altogether like

inflation, and the currency returns of notes and coins demonstrate an inflation. You have, therefore, just what we should expect to find. But the idea in 1893, when the mints were closed, was to starve the currency and force down prices by melting up a currency which was described as "redundant."

9540. In India the currency is managed by the Government?—Yes.

9541. Perhaps here you might say it is managed by the Bank of England; I do not know whether that is the view you would take?—No; it is absolutely automatic here.

9542. In what sense is it automatic here in which it is not automatic in India?—It is absolutely automatic here. Gold is not merely our standard, it is our popular currency. If gold comes from Africa in any ship it goes straight to free coinage at the Mint. The whole difference, and the terrible difference, between the Indian system and that of every civilized country in the West is, that if we lose to-morrow, say, 10 million sovereigns to the United States because they have an extremely good harvest, and their trade balance is a favourable one—suppose that we take 10 millions of gold out of the Bank of England for that—we are not at all alarmed under those circumstances, because we know that on arrival from the United Kingdom, those 10 million sovereigns will raise prices in the United States, and will thus stimulate our exports to that country, and, through the stimulus to our exports, will presently bring our gold back. That is the whole theory of the foreign exchanges. But there is nothing automatic of that kind in the case of India. The currencies of the West are automatic not merely in the country itself, though as long as you can take gold and get it coined free into sovereigns, you have got an automatic currency for the individual, but you have got also absolutely automatic currencies and free coinage between the various nations themselves.

9543. Would the Indian currency become automatic if the Indian mints were open to the free coinage of gold?—Yes, undoubtedly, it would be automatic, and effectively automatic if and only if the people would use that currency and not melt it.

9544. It is not merely a question of the free coinage of silver, it is a question also of the free coinage of gold?—It would, in a sense, become automatic, I admit, but there is no particular point in an automatic condition of that kind as long as you have got the whole Indian normal currency a silver currency, either silver coins or silver notes. To my mind prices in India are silver prices, and never will be gold prices. If you go and coin a great mass of rupees to-morrow for the Government of India, you are going to inflate prices in India because prices are rupee prices. I think if you coined a great mass of raw gold in India to-morrow it would have no effect on prices there at all, unless by throwing more sovereigns into hoards it threw more rupees out. If there came this substitution, which is to my mind what is going on at this moment, of sovereigns for rupees as well as of 10,000-rupee notes for rupees, both those conditions would account for the present unexampled rise of prices in India as nothing else will.

9545. At the present time, however, would you admit that it is true to say that anyone in India can get any form of currency that he pleases?—No, I do not think that it is the case. I do not think even the banks can get the currency they need. That is their complaint. That is, it seems to me, why we are all here to-day. You will notice what Mr. Dunbar says:* Our currency is locked up, and we cannot get it out, we want rupees. Mr. Dunbar's evidence was very good. He said, "I am opposed to a gold currency, as "not being required in India and as a wasteful and "expensive luxury." Then he goes on: We want rupees; we cannot import rupees; we can import sovereigns by councils, but it is rupees we want, and they are locked up.

9546. Surely that is directly contrary to what you have just been urging upon us; that is a complaint that the Government, instead of flooding the market with an excess of rupees, is not supplying them with enough?—I think at one time of the year, during the early months of the year till the crop comes in, there is any quantity of currency, and then during the time of stress and strain, when everybody wants the money, it is very hard indeed to get it.

9547. It is not so much a question of currency, then, as it is a question of credit?—No, I think it is a question of currency. The rupees which ought to be in the channels of trade making exchanges between individuals easy, are in the treasuries, having gone into the treasuries to pay taxes and so on. It seems to me that there is a great deal of difficulty in getting rupees.

9548. At that moment there is a difficulty of getting not specially rupees but money?—Yes.

9549. A great deal of evidence has been offered to us to the effect that the Government collects the bulk of its taxes at the moment when trade has the greatest need of money, and that the double stress leads to certain inconveniences?—That is so.

9550. But that is not a special shortage of silver, it is a shortage of money?—That is so.

9551. In so far as money is required in rupees, and Mr. Dunbar says gold does not meet the need, it surely goes to show that there has been no such unnatural inflation of the currency as you were suggesting to us just now?—In 1906 and 1907 you had the mints very busy; then, after coining nothing for three years, the Government of India in the last two years has been very busy again.

9552. Let me ask you why. Do you suppose that the action of the Government of India is purely arbitrary?—Yes.

9553. Do you suppose that a Finance Minister happens to come along who objects to the activity of the mint and he says, shut them down?—Yes.

9554. And then another Finance Minister comes along who is rather pleased to see the machinery going, so he opens them up again?—Yes, I think so. No one knows the least why; there is no plan and never since 1893 has there been a plan.

9555. You do not think the action of the mint follows upon a restriction or an increase of the demand by the public, but you think it is purely arbitrary on the part of the authorities of India?—Yes, it is a managed currency: just as Brazil's is.

9556. Do you think further that in some mysterious way, by building railways which may or may not be required, or by some other form of artificial expenditure, the Government disposes of the surplus rupees it has coined?—I say that it can. As to the arbitrariness of the situation, when it was first proposed to close the mint the idea—and there were many other wild ideas then, we all now admit that, I think—was to melt up great masses of rupees, sell the silver for gold, and start a gold currency as Germany did. They continued that melting up of rupees and so contracted the currency that, as Sir Shapurji will bear me out, it was mentioned in the House of Commons that there was a money famine in India and they were borrowing rupees in Bombay in 1897 on the security of gold bars at 2 per cent. a month. Since then the whole practice of currency in India has run a perfect gamut of experiments. Everybody who goes over there goes in order to try some fresh experiment. They describe them as evolutionary. Sir Guy Fleetwood Wilson, who went over there and who is now coming back, did; and whoever goes next will either send to the mint a lot of silver or possibly nothing if they want to contract the currency during the next ten years and to force Indian prices down, and unless in some way you do force prices down you will a little later encounter an adverse balance of trade and have a great difficulty in selling your Council Bills. If prices are, as I believe, 40 per cent. higher in India now than they were three or four years ago, it is quite clear that if we get a great tumble of gold prices in Europe in the next two years, as wise men anticipate, the balance of trade will go greatly against India, you will not be able to sell Bills, and then you will have to borrow gold.

9557. (*Mr. Gillan.*) Is it only the number of rupees that affects prices? Have notes and gold no influence, so to speak?—As long as a 10,000 rupee note, just

* Cd. 7069, Q.A. 7895, &c.

in the same way I should say as the 1,000*l.* Bank of England note, is in currency, of course it has an effect. But the conclusion that I have come to, from all I can glean, is that prices are rupee prices, and depend on the active circulation of the rupee and small notes, and that gold is not used at all. Of course, if you throw a great mass of gold sovereigns into India, as you have done in the last four years, while these are shaking down in their hoarding places people see them up country; while they are reaching a customer in the Punjab, who wants a sovereign in exchange for perhaps 15 rupees that he has got under his hearthstone, people will see them passing by. Sovereigns appear at the railway stations, and they appear at the treasuries, but they will very soon shake down into the hoards to be no more seen. I do not believe, whatever gold you pour into India, it will ever make any difference to the currency of India. The coin is too large. With wages at four rupees a month, a sovereign is the wages of near four months. What are our wages here? Let us say 5*l.* a month. A sovereign in India is just what a 20-sovereign coin would be here, and we know that a 20-sovereign coin would not provide a currency at all. Our people would not stand it for ten minutes.

9558. (*Chairman.*) I understand your argument so far to be that, in the first place, it was a great mistake to close the mint, and that that mistake was made under a misapprehension?—Yes.

9559. In the second place, that there was an opportunity of reversing that decision at the time of which you have spoken, when the French and American Governments and the British Government were ready to do it, but that India blocked the way?—Yes.

9560. Those opportunities having been in your view misused or lost, things have not remained stationary, and some at any rate of the evils of the original change must have been mitigated; what in your view are the evils of the original change which must have been mitigated or diminished by lapse of time?—No; I cannot accept that. I think the evil increases every day. I point out that prices are rising in India, as far as I can make out, considerably faster than they are rising here; therefore you are going to run up against an adverse trade balance and the impossibility of selling Council Bills. You have shipped a whole mass of gold to India which we here want, and it is lost, in my judgment, for ever, and that will make it more difficult for India to borrow. If gold is to leave Europe at the present rate, what sort of position are we going to be in to finance India? I take for one moment what we saw in the papers this morning. There is the announcement of a Royal Commission to consider the question of the State purchase of railroads. Twenty years ago our minds ran on State purchase at a time when this country could have borrowed money at 2¾ per cent., and when the railroads were earning 4½ per cent. But you cannot do anything of that kind to-day. Germany funded her State railways at a time when bank rates were very low, because the money was then available, but how can we get a great conversion scheme of that kind now? We have sent, roughly, 160 millions of gold to India in the last 13 years; the result is a 5 per cent. bank rate, and the Government of this country could not now borrow at the rate which the railroads are at present earning; they are earning 4 per cent., and if you could borrow at 4 per cent. 1,000 millions, there would be no profit on the operation. These Indian experiments have knocked for ever on the head constructive politics, which require cheap money.

9561. I want you to come a little closer to the present, but I do not want to misrepresent in any way the line of your argument?—I follow; you want to know why do I think it is so very bad now for India and will be worse?

9562. What steps do you think ought now to be taken?—I go back, if I may for a moment, to my original point. In the first place, the danger in famine times of the non-convertibility of bullion to coin is serious, but I think a much greater disaster has been the fact that the peasantry of India, because the mints are still closed—and this argument is good for a thousand years as far as I can make out—are handed over to be fleeced by the money lender. The peasant owning 100 tolas of bangles or ornaments could always send them to the nearest mint and get 100 rupees for them, and as long as he could do that, that controlled the rate which the money lender charged. I looked into this question when I was in India, very carefully. I found the whole situation very interesting. There is no doubt that whereas the sowkar rate and the bunnia rate before the mints closed was not more than 1 per cent. a month, it is now 3 per cent. When Messrs. Toomey and Fraser came here, Sir Ernest Cable inquired from Mr. Toomey, "Knowing the native as "we do, it is quite possible that having a hoard in "his village he may still be borrowing at 40 per cent. "from his bunnia?" (Cd. 7069, Q. 2975.)

9563. You understand, of course, that they were saying that, though he might have money of his own available, sooner than draw from his hoard he would borrow?—Yes. I will quote a case within my own experience at Aurungabad. A little cultivator who had borrowed 400 rupees from a local sowkar died, and apparently left nothing in the world, so the sowkar got an order to examine his premises. They found 4,000 rupees, although he was paying 1½ per cent. a month for this loan of 400 rupees. As long as the mints were open, I do not see how the rate could ever have gone above about 1 per cent. a month, because if the sowkar would not lend at 1 per cent. per month, the little man with the hoard would say, "All right, I "will send it through one of the agencies to be coined "into rupees."

9564. Mr. Toomey's argument was that that was exactly what he did not do; he was so reluctant to draw upon his hoard and to use his hoard, that he borrowed at this enormous rate?—I wish you would ask Mr. Toomey or anybody else who has experience of India, who ever heard of such rates as that in the seventies. I remember opening my eye seven at this rate of 1½ per cent. per month. Witnesses before this Commission have quoted 3 to 8 per cent.; how could such rates be if the mints were open and there was a free competition between the sowkars who make these village loans? If the mints were opened and I were a sowkar, of course I should have to lend at 1 per cent. a month, because my neighbour sowkar would. The opened mints made a zone within which the borrowings took place, but to-day there is absolutely no rate to control these bunnias and sowkars. The security, the good perfect security of silver bullion is gone.

9565. (*Sir Ernest Cable.*) It is an important question as to whether the rates were or were not raised?—I know the rates were much lower.

9566. What I have heard is that the rates tend downwards and not upwards, as you say?—As compared with the early eighties?

9567. Yes. It was only this morning that I happened to ask Sir James Meston that very same question, and he said, "Yes they are much lower and are going lower"?—That is not the evidence as I read it in your own blue books. Several witnesses have quoted 8 per cent. per month, and Mr. Toomey says 40 per cent. I never heard of such rates when I was in India a quarter of a century ago.

9568. (*Chairman.*) Mr. Toomey was speaking of an exceptional case; my memory is that he was speaking of the reluctance of the peasant to touch his hoard?—I know.

9569. Of course, the extent to which he would borrow sooner than draw upon his hoard was perfectly illogical, exactly as you spoke just now of a man who borrowed and then died with apparently nothing, but who really had a sum in reserve which made the borrowing unnecessary?—They are interesting instances, but I do not attach too much importance to them. What I do think is that silver before the mints closed was a perfectly good banker's security at par. A man who had 1,000 tolas of silver in any shape or form had a gilt-edged banker's security for 1,000 rupees, and this form of security, which is to-day worthless,

existed with mints open to the extent of 26 rupees for every man, woman or child in India. And under these conditions I feel certain that the sowkar would say; If I can get this coined at the nearest mint simply by sending it there, I cannot charge a very high rate. On personal unsecured loans possibly the rate now is no higher that it was then—that I know nothing about; but I say the one security which the Indians own is the security of their silver—that is the one thing, it represents their whole fiscal system, their whole condition of debtor and creditor is arranged on that one security, silver, and that you have destroyed.

9570. Would it be the rate of interest that would be affected by the fall in the value of silver; would it not rather be the amount of money?—I think both, but certainly that. I have mentioned the case of the man near Allahabad who had 2,000 rupees weight of silver and only got 600 rupees for it.

9571. In regard to the evils of the working of the present system, I think we have got your views quite clearly; in the first place, it has unnaturally raised prices?—Yes.

9572. In the second place, it has arbitrarily and artificially diminished the value of the hoarded resources of the peasantry?—Yes.

9573. Now let us go on to your next point in connection with that?—That is the origin of the gold exchange standard agitation. That exchange would have recovered despite an open mint I hold to be probable. The crisis of 1873 was of course unprecedented. You had for the first time in the world's history three first-class nations, France, the United States, and Germany, all deciding at the same moment to demonetize silver. Germany was prepared to sell between 300 and 400 million ounces of silver, by throwing it on the French mints; and the French, who had just been defeated in the field, felt constrained to close their mints. The United States at that time had suspended specie payments, but was about to resume specie payments. It was in the Constitution of the United States that at 1 to 16 anybody could bring silver to the mints. In 1873 silver was demonetized at Washington and you thus had this revolutionary change in the status of silver which inevitably must have involved a considerable period for the absorption of that metal. But had the Indian Mints continued open after 1893, serious though the crisis would have been and very inconvenient for the Government, India long since would have absorbed silver, in place of absorbing our gold, so that the rupee would have returned to its old rate of exchange. If India, in the last 13 years, instead of drawing 160 millions of sovereigns against her trade balances, had drawn instead 800 or 900 million ounces of silver, any such drain of silver as 800 or 900 million ounces would inevitably have brought silver back to par again. I think I have now come to the point where I might give you the figures of the present production and consumption of silver. There is no surplus silver; it surprises me how little surplus there ever has been. The industrial consumption of silver is increasing by leaps and bounds, and it is one of the great surprises of the time. Look at the figures. In 1905 the industrial consumption of silver was only 50 million ounces, or 30 per cent. of the production of the mines in 1909, four years later it was 104 million ounces, or 50 per cent.; and in 1911 the industrial consumption was no less than 143 million ounces, or 64 per cent. I have not got the figures for 1912—they come from the Washington Bureau—but the share taken by the silversmiths in 1911 was no less than 85 per cent. of the world's total production of silver in 1905. Now let us look at the coinages. After the silversmiths have been supplied, of all the great mass of silver produced to-day, 240 million ounces, there only remains about 80 million ounces, and of that 80 million ounces for 1911 China took for coinage 34 million ounces, Japan took nearly 5 million ounces, Austria took more than 6 million ounces, Belgium took 1,701,000; Brazil took 1,715,000, Egypt took 1,310,000, Mexico took 1,276,000, Morocco took over 2 millions, Russia took a million and a half, San Salvador took 1 million, and Venezuela took a million and a quarter. What I venture to think you are likely to find with the present situation of exchange, in view of the great drain of our gold, the great rise of prices in India, and the risk of an adverse trade balance in India is that a limited Monetary Union could be to-day established without difficulty and in perfect safety, and that the time is unusually opportune for a settlement of that kind. Let me take the figures of the production of silver for a moment. In 1910 and 1911 the production for the two years was 447 million ounces, and the industrial consumption for those two years was 282 million ounces, leaving 164 million ounces for the two years. The actual coinage for those two years was considerably more than 164 million ounces, so that there was positively a deficit, strange as it seems, of 16 million ounces; you can earmark it and I can give you the countries. On the average of the two years, the net annual surplus for coinage was 82 million ounces, out of which Great Britain, France, Germany, and the United States coined 45 million ounces, leaving only 37 million ounces to meet the coinage of the rest of the world, which amounted to 53 million ounces; so that actually the world required to draw from some existing stock of silver bullion in order to obtain its token currency. I should like to say a word about the state of the China trades, nothing in this connection is more important. The China trades require some fixity in exchange. If we could get to-day an agreement like that offered in 1897 on the part of France and the United States, but which would still avoid the sudden jump which alarmed the Government of India, on the ground that it would kill their export trade; if we could get instead a gradual rise, if we could advance silver 2*d.* an ounce each year, that would be ideal. The proposal I make is really the proposal made by Mr. Alfred Rothschild at the Brussels Monetary Conference that there should be an agreement between the nations to purchase regularly so much silver per year. In my judgment we should do that now. We know what we did not know then; we know how much India requires India for the last 15 years has taken 30 million ounces of silver per year. We are buying yearly for the Mint here 15 million ounces chiefly to go to the Nigerias. The African demand is increasing enormously, and there is no reason why we should not get the whole of East, Central, and Western Africa under a rupee currency. I was in Africa four winters ago, and I found the rupee doing money work everywhere from the Abyssinian frontier south to Tanganyika. It is very popular, and it is being hoarded there just as it is being hoarded in India. The future consumption of silver by Africa must be immense. If India takes 30 million ounces and our Mint, as I say, takes 15 million ounces, that is 45 million ounces out of the 80 million ounces which is the whole surplus, and you have got these other countries at present taking more than the entire balance. If we could have one buyer for the four nations, England, France, Germany and the United States, of a fixed amount of silver per month, we could very easily put up the price of silver 2*d.* per ounce per year until it went to 43*d.*, which is the melting rate of the rupee. That was the Rothschild proposal and the price to attain, and having got it up to 43*d.* by these quiet stages, we should have had such object lessons along the road of the value of a fixed exchange, particularly with China, as I have no doubt would conduce to a settlement. I think a settlement of this question is to-day easy. The world has forgotten the nonsense talked and the temper shown a quarter of a century ago. As I say, it is the settlement proposed by France and the United States with the assistance of India, which assistance had been promised by our Government. Here we had these two great nations with supreme power over the exchanges, France saturated with gold—there is more gold at this moment at the Bank of France than we have got in all our banks—and the United States, the greatest financial power the world has ever seen; and yet there was an idea at Simla that two countries of such colossal importance could not maintain exchange, and that a rupee of 1*s.* 1*d.* was not desirable. The real interest of the Indians, who own one-fifth of all

the silver in the world, was sacrificed to the remittance interest of a handful of export merchants,

9574. (*Lord Faber.*) Would not such a large increase as it would be of 2*d.* an ounce in the price of silver by agreement with these big nations stimulate the production of silver most enormously?—I think not. That is, I admit, a question for experts. In the first place, silver is a by-product largely of lead mines and copper mines. If the price of silver rose very considerably so that fresh mines were opened, you might so flood the market with copper and lead that the price of both those metals would fall. You must not regard silver as a primary metal. The cost of producing silver is perhaps 1*d.* an ounce; I mean that when you have got it in the copper and lead matte you can release it for 1*d.* an ounce. The production of silver from copper and lead mines to-day is much greater than it used to be, and the production of silver from real silver mines is much less. Except Cobalt I can think of no important silver camp now.

9575. (*Chairman.*) I was told the other day of a three-fold industry, in which the first two and more expensive articles are produced without profit, and the whole profit of this three-fold industry is made out of what you might call a by-product, a waste product, of the first two stages of the manufacture?—I think that is quite possible.

9576. Do you not think that, if the price of the by-product is raised tremendously, you will certainly be able to afford a considerable reduction in the prices of the principal products, and that that reduction of the cost will cause an increased demand for the use of them?—You are applying that argument to the silver market? I should have to look into the figures, but I should say not.

9577. To put my point clearly, suppose that the increased price of silver encouraged a greater production of copper, the first stage might be a fall in the price of copper?—Yes.

9578. Do you not think that would be followed by an increased use of copper?—I think it would. I admit it is arguable that a considerable rise in silver might increase its production. But silver is the key to unlock all the trades of the Orient, and, as I say, of Africa too. I do not think you can ever get enough silver. Given free mintage the need of silver for legal tender money by the backward and bankless nations is illimitable. China is capable of absorbing immense masses, and I live in the hope that I will see all Africa under a single silver standard. It is an admirable money-metal. They are building railroads to-day in Africa with silver rupees. To my mind the metal, silver, is the metal of all transactions in Asia, and gold never will be.

9579. Having regard to this very large demand which you foresee actually existing for silver, and having regard to the fact that you do not think that the rise in price would increase the supply of silver out of proportion to the increased demand, are you of opinion that it would be a perfectly safe transaction now for two or three of the great buyers in combination with India to fix a price for silver which should gradually rise until the bullion in the rupee was equal to the face value of the rupee?—Yes.

9580. That is your object?—Exactly; to get the rupee to its melting point again. That is the bitter cry of India's natives. If the United States, Germany, France, and England approach this question in conference, the method would be, I think, Lord Goschen's proposal in 1891, of small notes secured by silver. We bimetallists fought it when he made the proposal as Chancellor of the Exchequer. We thought it was a cowardly makeshift. We were convinced we were about to get open mints and all the rest done. We were full of enthusiasm. At that time we had 150 Members of Parliament on the League list, and we brought a deputation to Mr. Goschen here and denounced his proposal. I found out a year afterwards from Sir Robert Giffen that Sir Robert and some orthodox gold men had been with Mr. Goschen the very same morning and for the same purpose. So Mr. Goschen, between the hammer and the anvil, dropped his project. The saturation point of silver is 13*s.*, that is to say, if you coin another 1*s.* a head it will not remain out in the circulation; it comes back. They find from long experience that as much silver as can be put into our tills and pockets is 13*s.* per capita. Mr. Goschen's view was that if 10*s.* notes were issued, secured by silver bullion lying in the bank, it might be possible to put a further 20*s.* per capita into circulation, to the convenience of the public and the great profit of the Treasury. If you could put another 40 millions sterling by means of small notes into our circulation, the demand for silver under any conceivable conditions of production must greatly advance its price. If the United States, France and Germany would do the same thing the exchange problem disappears. The Germans, I have no doubt, would; they are clever bankers, and they are making great silver issues now, as you know, to replace gold, which they are putting into their Spandau war chest, and I feel convinced that once the public here become accustomed to carry small notes, they will like them. In these days of old age 5*s.* pensions, the inconvenience attending the weekly collection of great masses of silver is very great, whereas the emission of 5*s.* notes would be a great convenience to take the place of small money orders, and in this way a great new market for silver would be created. The plan did not originate with Mr. Goschen, it was the proposal of the Royal Commission of 1888. In their Final Report, Part II., para. 137 (C. 5512), they say, "We think that the best suggestion in relief of "the tension of the existing situation is to be found "in the issue of small notes based on silver. These "might become the substitutes for the half-sovereign, "and if they came into general use they would afford a "remedy for those difficulties in relation to that coin to "which public attention has been prominently called. "Twenty-shilling silver notes might also be issued. If "these were put into circulation, they would probably "pass largely into use without any alteration of the "law of legal tender." The Goschen proposal also was to issue the notes with a legal tender limited to 40*s.* "The Government might issue these upon con-"dition of retaining silver capable of being coined "into an equal number of shillings. The market thus "opened for silver, might check the decline in price of "the metal, besides producing an economy in the use "of gold. (Signed) Herschell, C. W. Fremantle, "T. H. Farrer, Leonard H. Courtney, Louis Mallet, "Arthur James Balfour, Henry Chaplin, D. Barbour, "W. H. Houldsworth, Samuel Montagu." Our objection at that time to the Goschen plan was that it involved a contraction of the currency; that it was going to call in the half-sovereigns, which were a full legal tender, and in their places put these small notes, which were not. We said we were suffering already from a contraction of the currency, evidenced by the great fall of prices, and this was a further measure of contraction. But to-day there is much to recommend the plan to any Chancellor of Exchequer. The profit to-day of purchasing silver at 27*d.* and issuing it through the mint at 66*d.* is very large. And Mr. Goschen, the most orthodox of financiers, said of it, "There are no economic objections." Do you remember his statement at Leeds *?

9581. Yes, I re-read it lately. I am a little surprised to hear you favouring silver notes for this country, because I thought you took such a very severe view of what are, in fact, the silver notes of India?—No, not *quâ* notes; I am not taking a severe view of them at all, on the contrary, I think it is an admirable thing—the more silver you get into circulation through notes the better. I only objected to the 10,000-rupee notes being described as in active circulation; I think that is not accurate; I do not think notes of that size are really currency at all; at best they are certificates of deposit.

9582. I think the words "active circulation" are used there with a rather technical meaning; they do not mean that these 10,000-rupee notes are passing

* Reported on page 10 of "The Times" for Thursday, 29th January 1891.

daily from hand to hand?—No. They are absorbed for hoards, and it is a good thing that they should be. If I may be pardoned for a moment's digression, how are you to going to treat these enormous notes later on? The Fowler Committee, in their Report, contemplated a few years later the positive demonetisation of the rupee—I am afraid I have not got the reference.* But that Committee expressed the hope that in a few years they would be able to deprive the rupee of its legal tender prerogative altogether. Now, if you are putting out 10,000-rupee notes, and they are being accumulated by capitalists in India, do you still contemplate at some future time the demonetisation of those notes? You can hardly convert a 10,000-rupee note, while refusing the rupee piece itself the prerogative of legal tender. Is not the whole future of the currency of India full of pitfalls because of these pernicious experiments? Suppose there was to be a Mutiny in India, the very first thing the mutineers would do would be to set up a mint and coin the silver of the natives into rupees, which would be quite indistinguishable from your own. If, again, India were ever invaded by Russia or by Japan, the first thing the invaders would do, I suppose, would be to imitate the rupee, and make the profit themselves on the issue. I remember Mr. Gibbs, when he was Governor of the Bank, telling me that large numbers of half crowns forged in Barcelona had come to the Bank, and that they were so perfect in design that it was almost impossible to detect them. There was a native arrested in India the other day who had got a complete coining apparatus which he declared he had bought in the Bazaar. It was of Austrian manufacture, and they found on him a lot of freshly coined rupees. What is to prevent me going to German East Africa, the rupee being already the legal tender currency of our Protectorate next door, and coining rupees in German territory and taking them across the frontier or shipping them to Bombay? It would be a most profitable operation. Who is to stop me?

9583. I led you a little astray by an observation on which I did not want to lay stress. I do want to ask you one question on the conclusion of your interesting statement. What it has led up to has been your advocacy of the summoning of a conference. As I understand, your view is that this Government should take the initiative in summoning a conference of certain of the great powers, to see whether an arrangement of the kind that you have foreshadowed could now be made, and if it could be made, you are wholly in favour of its adoption and think that it would be very much better and much safer than the existing system?—Yes.

9584. Does your support of that proposal depend upon the concurrence of the other powers? I rather gather it does. Or would you advocate, failing agreement with other powers, that India should by itself reverse the decision to close the mints and attempt, with the aid of such altered circumstances as you have described, to carry the whole burden of maintaining the parity?—I would not like to cross that bridge till I got to it. I would do my utmost to secure powerful partners. A few years ago the United States said that with France and India they were prepared to open their mints to free coinage. You must remember that the Democratic party, who were always the silver party, are now in power in Washington; and I have every reason to believe that France is alarmed at the great drain of gold to the East. There was no such drain of gold in 1897, and yet those great nations were then prepared to shoulder the burden—if it can be called a burden.

9585. Then I take it that, for practical purposes, at the present time your proposal to the Commission is dependent on the concurrence of these other powers?—Yes, it will be time enough to consider an alternative when France and the United States have said "No." I suggest a very limited monetary union. We have always broken down at these large monetary conferences. I remember at Brussels there came gentlemen from South America who had not seen a gold coin in their lives, but they were full of abstract currency views, and they did most of the talking. One delegate from, I think, Venezuela, occupied nearly a whole sitting. You do not want those gentlemen in a monetary union such as I contemplate.

9586. Sometimes people with the worst currency know most about the subject?—Yes, they do.

9587. Your point is that it would be a mistake to attempt to get a world agreement?—Yes, because it is not necessary.

9588. And that it would be amply sufficient to get the agreement, of, say France, Germany, and the United States?—Yes.

9589. With such an agreement, and with India included, those powers are sufficiently strong to shoulder the burden and to carry it to a successful issue?—That is my conviction.

* C. 9390, para. 55 of the Committee's Report.

The witness withdrew.

TWENTY-THIRD DAY.

At The India Office, Whitehall, S.W.

Thursday, 30th October 1913.

PRESENT:

The Right Hon. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.,
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. VIDYA SAGAR PANDYA called and examined.

9590. (*Chairman.*) You are manager, I think, of the Madras Specie Bank?—Of the Indian Bank, Limited. They call me the Secretary of the bank.

9591. You are Secretary of the Indian Bank, Limited?—Yes.

9592. You have handed to us a memorandum* of your views which I think it would be convenient to you and to us to take as part of your evidence?—Yes.

* *See* Appendix XXX., page 635.

9593. I do not, therefore, propose to go over the whole of the ground covered by your memorandum, but only to ask you certain questions which arise out of it?—I have marked a few small changes and have struck out one or two sentences from my Notes. I hope the Secretary has brought that to your notice.

9594. Yes. It will be printed in the amended form. As regards the balances you state that in your opinion they have been unnecessarily high of late?—Yes.

9595. Do you attribute that to design or accident; do you think that the Government deliberately estimated for balances which in your opinion were excessive, or do you think that they made mistakes in their estimate, and that the revenue was more favourable than they had expected, and therefore the balances were large?—From the results we see that they have been excessive; I cannot say how it has been caused.

9596. Estimating a Budget is always a task of some difficulty?—Yes, it is.

9597. In the case of India is it not a task of special difficulty?—To some extent.

9598. If the foreeast of the Indian Government made at the commencement of the year had been realised, the balances would have been very much lower than they actually were; that is so, is it not?—Yes, but we have seen that they have been larger for a number of years continuously.

9599. But in each of those years the estimate before the year commenced was for quite a moderate balance at the end of the year?—Yes.

9600. You would not complain of the amount that they estimated for; you would not think that that was excessive, would you?—I cannot speak of that.

9601. Assuming that the balances had not been so high, do you still hold the view that those balances ought to be retained in India?—Yes.

9602. It is not merely because the balances were in your opinion excessive that you desire them to be held in India?—Whether they are excessive or moderate, they should always be held in India.

9603. The Secretary of State must, I suppose, have some balance here?—Only as much as is necessary for him.

9604. What are the purposes for which the Secretary of State has drawn money from India to London to which you object?—He has drawn those Council Bills beyond his actual requirements.

9605. What do you mean by his actual requirements?—For what they call "home charges."

9606. Beyond the immediate requirements?—Yes, beyond his own immediate requirements, the Government requirements.

9607. But do you mean that he has brought money here which he will eventually have to remit to India again?—Probably, but I think he has drawn more for the purposes of export and those who deal in exports, and for the banks, to help them in the getting of funds.

9608. He drew more than he required for the moment?—He did.

9609. There we are agreed?—Yes.

9610. Do you suggest that he drew more than he required ultimately?—I think so.

9611. He had to meet the current charges of the year?—Yes.

9612. He had also to provide for a capital programme?—Yes.

9613. Having regard to that and similar considerations, do you think that he ever brought money over here which sooner or later he would not require to spend over here?—Judging from the balances as published in the official reports, we find that they have been higher than he actually required them.

9614. Yes, they were higher than he needed at the moment?—Yes, judging from those balances published in the Blue Books.*

9615. But did he bring money over here merely in order to lend it on the market here with the knowledge that he would have to remit it back to India again?—I cannot say that, but this much I can say, that he has been doing that to meet the requirements of those who wanted to remit funds to India.

9616. Why do you say that?—In one of his speeches the Finance Member in India said: It is for the purpose of helping trade that we have been selling these Council Bills.

9617. Has it ever been put to you that the Secretary of State, though he brought over more money than he required at the moment, has never brought over more than he would ultimately need, and that the limit, therefore, of his sale of Council Bills has not been the requirements of trade, but the ultimate use which he had for the money in London; in other words, if he had not seen that he would require this money sooner or later in London he would not have sold so many Council Bills, even though trade required them?—I think probably he has been doing it more for the convenience of the trade at that particular time than for his own requirements, or providing for his requirements in future.

9618. That is your inference from the facts?—Yes, that is what I say.

9619. There is no other argument which you adduce in support of it except the size of the balances?—I do not think it is so much to provide for his own future requirements as for the immediate convenience of those for whom they were drawn.

9620. That is, of course, not the view put before the Commission by the representatives of the Indian Government or the Secretary of State?—It is possible.

9621. In your opinion, beyond the minimum immediately required by the Secretary of State no money ought to have been brought here to London?—No.

9622. In that case the balances in India would have been even higher than they were?—You should reduce those balances, and not keep so much for balances if you do not require them; do not have surpluses.

9623. How would you avoid the surpluses?—By budgetting properly.

9624. By reduced taxation or by increased expenditure on reproductive or educational services—in one or other of those ways?—Yes; if it is for educational purposes at the present time it would be all right.

9625. And you think that at the time the budgets were drawn it would have been quite safe to calculate upon a larger revenue than the Finance Minister did?—Even if he were short of funds he could borrow.

9626. Then do I understand your view to be that it would be better for the Finance Minister to wind up with a deficit, and to borrow to meet it, than to wind up with such surpluses as he has had in recent years?—Yes.

9627. That is your view?—Yes.

9628. The balances having been in existence, you take exception to their use, I think?—Yes, to some extent.

9629. Do I rightly understand that you think they ought to have been kept in India in order that they might be loaned out in India?—No, not for that purpose, but as long as the balances are there—as long as there are surplus funds—they should first remain in India for India.

9630. You suggest that the Government of India should be prepared to lend, I think, to any bank?—Any bank of standing.

9631. To what extent do you think the Government of India ought to lend?—I think as much as they feel they can spare without in any way curtailing the amount required for their own purposes.

9632. They should lend everything above a minimum balance?—Yes, any surpluses which are not immediately required for the time being.

9633. Have you in mind loans for long periods or only for a short time?—Only for a short time.

9634. Three weeks, or something of that kind?—Well, not beyond three months.

9635. Up to three months?—Yes.

9636. How would you define the class of institutions to which the Government should lend?—Those who can tender securities.

9637. Any bank which can offer them approved securities?—Yes.

* *See* e.g., Cd. 7070, page 83.

9638. Would you accept any individual who could offer them the same class of security?—No, I would not go for the present beyond the banks.

9639. But you would make no distinction between one bank and another?—No.

9640. Provided it was called a bank?—No, not necessarily; provided it does proper banking business.

9641. Then the Government would have to enquire into the class of business done by the bank?—Yes.

9642. It would have to make some selection among those institutions?—Probably.

9643. Is not that a very invidious task for a Government to perform?—But they have been doing it here.

9644. Even here it has led to some criticism?—Yes.

9645. Might not it be an even more difficult task to discharge satisfactorily in the conditions of India?—I do not think so.

9646. Passing to the sale of Council bills, you say in paragraph 15(*a*) of your memorandum: (Appendix XXX., page 638): "Council bills and transfers ought "not to be sold which in any way stop the import of "gold into India"?—Yes.

9647. You go on to say: "Gold should be allowed, "and even encouraged, to come freely into India, and "every effort made to keep it in the country when it "arrives"?—Yes.

9648. I want to have your reasons for those conclusions. Perhaps, in the first place, I may ask you: What exactly do you mean when you speak of Council bills and transfers being sold in such a way as to stop the import of gold into India?—Where Council bills have been sold for the convenience of trade in England, and where rupees have been issued in India, that amount would have come in the form of gold to India if those bills were not sold.

9649. If I understand you rightly, you mean that in so far as Council bills are sold they prevent gold going in payment?—Beyond the actual requirements of the Secretary of State—any sales of Council bills beyond his actual requirements.

9650. I suppose, as regards its effect upon the import of gold into India, it applies equally to the sale of Council bills to meet the requirements of the Secretary of State?—That is necessary; you cannot help that.

9651. But you hold that he has sold in excess of his requirements?—Yes.

9652. And you say that by so doing he has prevented gold from going to India?—Yes.

9653. What do you think would have happened to that gold if it had gone to India?—It would have remained there, probably.

9654. How would the trade debt to England have been settled?—During these years, except 1907–8, there was no debt to England; the balance of trade has always been in favour of India.

9655. I am not talking about the balance of trade. A large part of the trade was settled through the medium of Council bills in those years?—Yes.

9656. You suggest that Council bills ought not to have been sold?—Yes.

9657. And in that case gold would have gone?—Yes.

9658. I suggest to you that a great portion of that gold would have been returned to England in settlement of debts due to England. Do you agree?—I do not think so—not quite.

9659. You think that by the simple method of refusing to sell Council bills in excess of the Secretary of State's requirements the amount of gold in India could be enormously and permanently increased?—It would be increased; I do not say permanently, but it would be increased.

9660. If it is only temporarily increased, and if the gold has to come back to England. it has been a very costly transaction for the traders on both sides to have to remit the gold out there merely to remit it home again?—Yes.

9661. And in that case nobody has benefited?—No, I grant that.

9662. But that does not alter your view at all as to the propriety of that course?—No.

9663. May I ask you to tell me why you desire to see the amount of gold in India actually increased?—Because it would replace the silver which we are holding at present.

9664. Why do you wish the silver replaced?—Because it is going down in value.

9665. Do you for that reason think that the rupee coinage is more unsafe than it was?—Yes, it is.

9666. And your ultimate object, therefore, is to substitute gold coinage for the rupee coinage?—Yes.

9667. Do you want to substitute gold for notes also?—I should like to have gold notes—notes based on gold.

9668. For notes based on silver?—Yes.

9669. The notes, of course, are token coinage as much as the silver?—But the notes would be based on gold, not on silver.

9670. Then, if I rightly understand, your object, when you have got the gold into India, is not to have it in circulation, but rather to have it in reserve against a note issue?—For both purposes, both for circulation as well as for note issue. If it is more for a note issue it will concentrate in the reserves of the Indian Government.

9671. If you have a token circulation, whether in silver or in notes, the convertibility of which or the exchange value of which is assured, do you attach any importance to having the actual gold in circulation?—I would prefer gold in circulation.

9672. Do you think that gold is largely required in excess of the amounts now circulating in India for circulation?—They would take more if it was given.

9673. Is not the sovereign rather a big piece for many of the Indian transactions?—For small transactions it may be big, although on the whole it is not big; and for that reason I would make coins of smaller denominations.

9674. Gold coins?—Gold coins or notes.

9675. The gold circulation in India at present is very partial, is it not?—Yes, it is.

9676. I mean by that that gold circulates much more freely in particular parts of the country than in others?—Yes. But it is increasing every day.

9677. Is it the case, as I put it, that at the present time it circulates very little in large parts of India and to a very considerable extent in other parts of India?—Yes, it does.

9678. Am I to understand that your view is that the Government ought not merely to give people whatever they demand, but ought actively to encourage the circulation of gold among the people?—Yes.

9679. That is hardly what is done in western countries, is it?—I do not know much of that.

9680. You have not followed at all the currency questions in France, in Germany, in America, or in Canada?—No, not much. Speaking about the circulation of gold, probably you have seen the latest report of the Bombay circulation of gold for 1913, in which it says that since last year it has trebled; the quantity of gold issued now is three times as much as it was last year.

9681. Yes, but I understand that in your opinion that process ought not to be left to develop itself on natural lines, but it ought to be the object of the Government to hasten it and increase it as much as possible?—But the Government actively associating itself would not be unnatural.

9682. I do not want to quarrel about words. I only want to be sure of your view. Your view is that the Government ought to do its utmost, as I understand, to increase the amount of gold in circulation?—Yes, to try its best.

9683. Do you attach importance to the maintenance of the exchange value of the rupee?—I am not an exchange banker, and I cannot say anything about the exchange value of the rupee.

9684. But I should not have thought it was necessary to be an exchange banker in order to have some opinion as to whether it was important?—If you mean the fixing of the value of the rupee, I cannot express an opinion.

9685. No, but in the present condition of things do you think it of importance that the exchange value of the rupee should be maintained?—For the present.

9686. In present conditions that is done, is it not, by the Gold Standard Reserve?—But I do not think it is quite enough.

9687. Perhaps we can come to that later?—Yes.

9688. If you lessen the circulation of rupees you stop the growth of the Gold Standard Reserve; is not that so?—Yes; it would disappear under my scheme.

9689. Your idea is that you should have a gold circulation in India, and that then no gold reserve would be necessary?—No Gold Standard Reserve, no.

9690. Do you think that a million sovereigns circulating in India are as useful for the maintenance of exchange as a million sovereigns in reserve?—For what purpose?

9691. For the maintenance of exchange. I will put it in another way; for the settlement of India's debt in a year when there is an adverse balance of trade?—Yes, as long as the present arrangements continue it is necessary to have those in reserve.

9692. Bnt you think if sufficient gold is in circulation in India you need not have any Gold Standard Reserve?—No.

9693. What I suggest to you now is that you would require a very much greater amount of gold in circulation to make you safe than you would require if you had the gold in the Gold Standard Reserve?—Yes.

9694. There you agree?—Yes.

9695. Is not your proposal rather a wasteful one?—I do not quite follow.

9696. It requires a great deal more gold?—I do not quite follow.

9697. I will not pursue it, then. As long as there is a Gold Standard Reserve you suggest that that reserve ought to be kept in India?—Yes.

9698. The object of it is to maintain the exchange, is it not?—Yes.

9699. When the exchange is menaced where will it be required?—It can be given in India.

9700. If it is given out in India what will then have to be done?—It will be the business of those who want to send it where they like; it will be the business of those who want to remit it to anywhere outside India to make their own arrangements to send it to the destination.

9701. It will then in those circumstances have to be remitted?—Yes.

9702. In the main to London?—Yes.

9703. Do you think there is any advantage in keeping it in India, therefore, where it will not be required at the moment of a crisis, instead of keeping it in London, where it will be required?—Practically the Gold Standard Reserve is for the use of those only who want to remit money outside India, and there is no legal obligation on the part of the Government to give gold for the rupees which they are now issuing; so it is only keeping the standard at the expense of the taxpayer for the convenience of those who deal in foreign exchange.

9704. You think that India as a whole has no interest in the maintenance of exchange?—It has to the extent that they have to pay for it in money, but beyond that, as regards the general taxpayer, it is not his business to maintain a standard simply for the purpose of meeting the foreign exchange.

9705. Your view of the Gold Standard Reserve therefore is that it is a charge on the general taxpayer of India for the benefit of the export traders?—At present it is so.

9706. I think that you desire, in addition to the increased circulation of gold in India, to see it freely minted there?—Yes.

9707. On what terms do you propose that the Indian Mint should be opened to the coinage of gold? Would you charge a seigniorage?—No.

9708. Are you aware that the Australian Mint charges a seigniorage?—I am not aware of it.

9709. What gold would you expect to get for coinage at the Indian Mint?—African gold and the gold produced in India, both.

9710. Do you know whether the gold produced in India is under contract for sale to this country?—Yes, it was in the past, but I do not know what it is at present.

9711. I ask because we have it in the correspondence which has been submitted to us that that was so in the past, but you do not know whether that is so now?—I do not know.

9712. You think you would attract African gold to India?—Yes.

9713. By offering it more favourable terms than it would get in London?—I do not say that. I say we should open the Mint, and it is left for them to send it there or to London, wherever they think it most convenient.

9714. Would you buy gold for the Bombay Mint on more favourable terms than those on which they can sell it here in London for the English Mint?—I do not follow what you mean by "favourable terms."

9715. Do you contemplate that the Bombay Mint should underbid the Mint here?—No, I do not say that there should be any underbidding.

9716. Do you think that if they offered the same terms African gold would be attracted in large quantities to Bombay rather than to London?—Yes, it would be attracted more to Bombay. If London were nearer to South Africa probably it would go there.

9717. You think it would go to Bombay because Bombay is nearer?—Yes.

9718. That is, I suppose, on the assumption that India needs, and would retain, all the sovereigns, or whatever coin might be coined at the Bombay Mint?—Yes.

9719. What coins do you think should be coined there?—The present sovereign which we have got—the British sovereign.

9720. You do not desire to see a special gold coin?—No.

9721. Do you anticipate that the opening of the Mint would have any effect on the hoards of the Indian people?—Not in normal years.

9722. Only in times of famine or pressure?—Yes.

9723. In other years you do not think they would produce their gold bullion from their hoards?—I do not believe there is much gold in hoards.

9724. Would you say that the amount in hoards was increasing in recent years with the large imports there have been or not?—The total amount of gold is increasing. It is to a certain extent going into hoards.

9725. You do not think it would come out of those hoards under any circumstances except in times of famine or pressure?—As the circumstances now stand, but you see there would be a general circulation, and that would be always available.

9726. I do not quite follow that?—At present the amount of gold in India does not satisfy the requirements of holders.

9727. Then if I understand your answer you mean that there would still be the same amount retained in hoards, and there might even be more, but that under your proposals over and above that there would be a large amount in circulation?—Yes. You see, a certain amount of gold must remain in those hoards—what are generally called hoards.

9728. I gather that you do not anticipate that the opening of the Mint to the coinage of gold would have any appreciable effect upon the hoarding propensities of the Indian people?—No, You see, if we have a gold Mint in India there will be more coinage, the gold will be coming more freely, and then there will be more gold, beyond the requirements of those holders, and that will circulate, and that will have its effect.

9729. It will be the excess over the amount which they require for their hoards?—Yes, it would be.

9730. It will not be the hoards themselves that will come out and be turned into coin?—Except at the time of pressure.

9731. In such times I suppose a man trying to turn his small hoard into money would hardly himself in most cases go to the Mint or deal direct with the Mint?—No, the man will not.

9732. He will deal with a middleman?—Yes.

9733. The gold might perhaps pass through the hands of a series of middlemen before it reached the Mint?—In the case of those who hold in small quantities.

9734. Would the middleman holding a considerable amount of gold bullion find any difficulty in disposing of it under present conditions?—Yes, as long as he cannot have it minted he feels that difficulty. He has to sell it at the rate he can get for it.

9735. Is it your view that he would get a substantially better rate if he could tender it at the Mint than he could now get if he tenders it as bullion?—A better rate.

9736. I turn now to what you say in paragraph 21 and the following paragraphs about the Gold Standard and Paper Currency Reserves, paragraph 22 in particular (Appendix XXX., page 641). How far is your objection to keeping the reserves in England due to your fear that if reserves are so kept they will be invested in securities, because, as you say in sub-paragraph (4) of paragraph 22, owing to the control of London financiers, the Secretary of State is too often influenced in favour of the London market?—That has been the past experience.

9737. How far does your objection to keeping the balances in London turn upon that? If you could be guaranteed against an undue investment of securities, would your objection to keeping the balances in London, or the reserves in London, be removed?—To a certain extent it would be, but not altogether.

9738. Under present conditions, to what amount do you think the Gold Standard Reserve ought to be raised? Ought any limit to be fixed to its increase?—No.

9739. What amount of the whole do you desire to see kept in liquid gold?—The whole of it.

9740. No matter to what size it rises?—Until we have got a gold currency.

9741. And the moment you have a gold currency you think that then the necessity for the Gold Standard Reserve disappears?—Yes, I think it will disappear.

9742. In the meantime you desire to see the Gold Standard Reserve accumulated as rapidly as possible without limit, and all in liquid gold?—But I do not want any further rupees to be coined or issued.

9743. Then, how can it increase except by addition of the interest? What exactly do you desire? Do you desire the Government of India now to coin nothing but sovereigns or half-sovereigns?—Yes, I think we have got enough rupees at present.

9744. Suppose the public asks for rupees, and the stock which the Government hold in reserve is exhausted, is it your advice to the Government of India that they should tell the public "We have no more rupees, but you can have sovereigns"?—No, the Government cannot say that, but if they pushed the circulation of gold it would limit the circulation of silver.

9745. But if the people asked for rupees you think they ought to have them?—Then they must have them.

9746. And if the Government have not got enough of them, then they must coin more?—Then they must.

9747. But it comes back to this, that your desire is to see the Government of India push the sovereign or the gold coin in every possible way?—Yes.

9748. I do not propose to ask you many questions about the Central Bank; you have dealt with it fully in your memorandum (Appendix XXX., page 642). I gather that your general view is unfavourable to the idea?—Yes.

9749. Is that because of the difficulties you see in establishing such a bank?—No, it is more on account of the reasons which I have given in my notes than because of any particular difficulties.

9750. Because of intrinsic objections to the bank itself?—Yes.

9751. (*Sir Ernest Cable.*) I think you said the chief object which you have in view in establishing a Mint would be to enable bullion to be more easily changed by natives into sovereigns—that they should bring bullion to the Mint and get sovereigns in exchange; was not that so?—Yes.

9752. That was one of your principal objects in establishing a Mint, was it not?—Yes, by establishing a Mint gold could be easily coined.

9753. Would not the same object be served if the Government were to exchange sovereigns for bullion?—That they can do more easily by having a Mint on the spot.

9754. But that would meet your views to a great extent, would it not?—Not fully.

9755. (*Mr. Keynes.*) I think you describe yourself as Secretary of the Indian Bank?—Yes.

9756. Is that a different institution from the Indian Specie Bank?—Yes, quite different.

9757. You are not connected with the Indian Specie Bank?—No.

9758. I see at the end of your memorandum that you sign your memorandum as coming from them?—Yes, I pointed out to the Secretary that it leaves it to be inferred that I belong to the Indian Specie Bank by the way in which it has been printed, so in the proof I have set it right.

9759. That is incorrect here?—Yes.

9760. Would you urge Government to get gold into circulation to such an extent as to displace rupees which are now there?—As far as possible to displace them.

9761. What would you do with those rupees?—Melt them—dispose of them.

9762. And that, as you know, would mean a very heavy loss to Government?—For which we have got the Gold Standard Reserve.

9763. Would you dissipate the Gold Standard Reserve in meeting the loss on melting down rupees: that is a part of your proposal?—Practically it would amount to that.

9764. As you know, that only represents the profits on rupees coined since 1900?—Yes.

9765. So that if the displacing of rupees went very far, there would not be a sufficient sum to meet the loss, would there? The Gold Standard Reserve Fund would suffice to redeem those rupees which were issued since 1900, but it would not do more than that?—Exactly.

9766. So that the proposal is an expensive one?—Yes, it is.

9767. Do you think that there are advantages of sufficient magnitude to warrant such a revolution and so much expense?—Still, I think there would be a certain amount of rupees always for transactions.

9768. No doubt?—And I do not think we will have to go at present beyond the amount which is sufficient to cover the Gold Standard Reserve.

9769. But if your proposal were very successful it would mean the melting down of a certain amount of rupees, and that melting down you are prepared to face?—The part of the rupees coined before 1893, do you mean?

9770. Of the rupees now existing some might have to be melted down?—Yes.

9771. And that you are prepared to face?—Yes.

9772. With regard to the State Bank, upon which you make a number of interesting and pertinent suggestions, you point out at the beginning of that section of your memorandum (page 642 of Appendix XXX.) that no definite scheme has been formulated for its working?—No.

9773. But the criticisms which you make subsequently do presume some sort of scheme in your own mind, do they not?—No, it is not in my mind; it is based on the memorandum prepared by Mr. Lionel Abrahams.*

9774. It is based on that?—Yes.

9775. But you are assuming a system in which the Presidency banks are amalgamated but left private institutions to the same extent that they are now, are you not?—No, it will make a difference.

9776. They will be under Government supervision to some extent, but the bank will be substantially a private institution. You have described this new bank as a private institution?—Yes, a private institution.

* Cd. 7071, Appendix XIV., page 339.

9777. Or nearly as much a private institution as the present Presidency Banks?—Yes, it will be a private institution according to the scheme—according to what I can gather from the memorandum of Mr. Lionel Abrahams.

9778. And your criticisms are based on that hypothesis?—Yes, and also on what has been suggested by Mr. Hunter, of the Bank of Madras, who is probably in communication with the other Presidency banks. (Cd. 7071, pp. 594–5).

9779. You say, for example, that it will involve handing over to private persons profit which ought to be public profit—profit which ought to accrue to the Government?—So far as the paper currency is concerned.

9780. And that is on the assumption that the institution is a private one in which the Government does not share, is it not?—No, I am not in favour of handing over the currency to any private institution.

9781. The argument against handing it over to the bank is based on the assumption that the bank to which it would be handed over is a private institution in the profits of which the Government would not share?—Not that; it will set back the circulation; the circulation will suffer.

9782. A considerable part of that section of your memorandum which deals with the bank is in effect a criticism of the Presidency banks as they are now constituted?—Because the new bank would be the same thing, practically.

9783. And your objection to the new bank is that it would be strengthening the position of banks which you already dislike, or which you already think imperfect?—Certainly.

9784. That is the main ground of your opposition to it?—And it will exist if the new bank is formed on the same lines.

9785. In criticising it on that ground do you realise the other alternatives which exist? Either the Government must go on as it does now, keeping everything in its own chests (which some people think is wasteful), or it might hand its balances over to a greater extent than it does to the Presidency banks?—As for the balances which are already there, as I propose, they should go to all the banks, and I do not want any further balances to be kept with the Presidency banks than under the present arrangements.

9786. That is the plan which you would yourself prefer, but if the alternatives were before you of giving to Presidency banks more than they have got now, or of introducing an institution which would be to a greater extent under the State, which of those would you prefer?—An institution under the State with private capital, do you mean?

9787. With private capital, yes?—I am not in favour of any institution with private capital under the Government of India.

9788. Rather than that you would have the balances handed over to the Presidency banks?—No, to all banks.

9789. But suppose that was out of the question, what would your next preference be?—How would it be out of the question? I do not quite follow that.

9790. If that alternative is placed on one side, what policy would you then advocate?—I would rather keep it in the treasuries as they are—as the money is now.

9791. Unused altogether?—Yes.

9792. Rather than hand it over to the Presidency banks to a greater extent?—As they are managed now.

9793. Supposing that it were to be offered to all banks, as you propose, at what rate would the money be offered?—1 per cent. below the bank rate.

9794. Supposing that more was applied for on those terms than the Government had, how would they select amongst the different banks?—First come, first served.

9795. Would they advance this on the security of Government paper?—Yes.

9796. Suppose that they advanced it on the security of Government paper to banks which were not very stable institutions, in the event of a bank being unable to repay the loan it would be necessary to sell the Government paper, would it not?—Yes, but I do not think there would be that contingency.

9797. But that contingency would be an inconvenient one to the Government?—Yes it would be.

9798. To have a great deal of their own paper thrown on the market would be inconvenient?—Yes.

9799. You have a great knowledge of modern Indian banking. Would you say that it was a very improbable contingency that amongst all the numerous banks some might be found occasionally who would be unable to repay the debts and who would have to liquidate the paper?—That would be very small.

9800. A very improbable contingency?—The paper that would have to be liquidated would be a very small amount; it would not be so much as to endanger the position of the Government.

9801. If the existing banks are encouraged to hold large amounts of Government paper with a view to getting these loans from the Government, you think that the contingency in which they have to liquidate this Government paper is a very unlikely one if by liquidating I mean liquidating in large quantities?—You mean it will lead the banks to hold more paper and to speculate more?

9802. Obviously, if a bank can get these loans from the Government on the security of paper the banks will hold more paper than they now hold, will they not?—I do not think so.

9803. Is it not an inducement, if they can get 1 per cent. below bank rate—if any bank of any sort of standing can get money 1 per cent. below bank rate in the busy season?—Has it induced the bankers here to hold more paper in that way?

9804. But there is no such inducement here?—I beg your pardon; I think they have been getting money and they have been handing over securities.

9805. But here it is on a very small scale in proportion to the total business. In India is it your opinion that it would not induce banks to hold any more than they hold now?—To a certain extent it would, but it would not go beyond a safe limit.

9806. But as regards this Government paper which is held by all sorts of small banks, you think there is no risk of that being liquidated?—No, I do not say all sorts of small banks; I would not give, for instance, any amount under five lakhs.

9807. As regards banks in a position to take five lakhs, you think that their holdings of Government paper are of a very permanent character?—Yes, those who are in a position to give Government paper and take five lakhs are in a fairly good position.

9808. You see, I am not contemplating a case in which these banks actually have to be liquidated; I am only putting a case in which they have to turn some of their more liquid resources into money?—They will be in a position to do that.

9809. You express that as your opinion?—Yes.

9810. I should like to ask a few questions with regard to the relations of the newer Indian banks to the Indian money market in general. Those banks can keep a certain amount in cash. Is it very easy for them to keep other resources which are of a fairly liquid character?—I do not quite follow the question.

9811. Is it easy for the new Indian banks to employ their funds in loans which are of a liquid character, that is to say, easily realisable in case of an emergency?—Do you mean the new banks; are you asking whether they hold more funds in a liquid form?

9812. I am not so much asking you as a matter of practice, but is it easy for them to do so?—Yes, I think it is.

9813. What is the character of the transactions into which they enter of that sort; I mean if I were asking an English banker I should say to him: "After your cash resources what is your second line of defence?"—We keep Government paper or money at call.

9814. From whom is the money at call?—It is from big bankers.

9815. To what extent would you say that these banks do hold their money in that form?—The stable banks do generally hold sufficient money to cover their requirements.

9816. Do they hold any important amount in the form of bills of exchange?—Yes, they have bills of exchange.

9817. If they want to realise those bills before their maturity is it possible for them to do so easily—if they want to re-discount them?—At present there is not any arrangement for re-discounting of bills in India. They generally do not re-discount in India.

9818. Would it be an important convenience to them if they could?—Yes, it would be.

9819. It would make that part of their assets more liquid than before?—Yes, so far as they can convert it into cash.

9820. I notice that in your criticism of the power of the shareholders in the Presidency Banks you say nothing about the Bank of Bombay?—That is so.

9821. Have you anything to add about the Bank of Bombay?—As regards the Bank of Bombay, in the first place I have not much experience of the Bank of Bombay, and then it is not so rigidly exclusive as the other two banks; and, thirdly, we have two members here who can give you information on the lines suggested by me. That is why I have not touched the matter. It would be adding some more pages to my notes, but to a certain extent some of my remarks apply to the Bank of Bombay.

9822. There is only one other question I want to ask you. In the section of your memorandum headed "State Central Bank for India," in paragraph 27 of Appendix XXX., page 643, you give your objections to the formation of a State Bank, and in objection No. X you say: "On the other hand, the Treasury system has developed after half a century of working"?—Yes.

9823. Is that to mean that you approve of the existing system by which the Government locks money up? Is it that part of the Treasury system to which you are referring?—No, it is the facilities which are given to the public in the matter of converting notes into rupees and rupees into notes.

9824. You are not speaking there of the system by which Government locks money up?—No, not here.

9825. (*Sir Shapurji Broacha.*) You are not very familiar with exchange operations, are you?—No.

9826. You have recently gone to Madras?—I have been there for about six years now.

9827. From Bombay?—Yes.

9828. In paragraph 27 of your memorandum, sub-paragraph VII. (*a*), page 644 of Appendix XXX., you say: "The Presidency banks have responded to the "requirements of some of the large European trading "interests. They have financed some particular crops "which they found most convenient to their own ends. "So far as I am aware, they have no systematic "scheme or sympathetic desire to finance Indian trade "or industries. Their interest in Indian native "concerns has been only to the extent that it was "necessary to exploit them for their own gains." Are you speaking of Bombay in that passage, because you say, "the Presidency banks"?—I refer to the Bank of Bengal so far as my experience goes in the northern parts of India, and also in the case of Madras.

9829. I know that the Bombay Bank finances more natives than Europeans, and I think that five-sixths of its lending must be to native industries and natives?—It may be.

9830. And so, of course, you are wrong in your inference about the Presideney banks so far as the Bank of Bombay is concerned?—I do not know much about the Bank of Bombay.

9831. Do you say what you say of Madras from experience?—From my experience.

9832. Mr. Hunter writes to us* that out of the 732 lakhs of advances made by the Bank of Madras 588 lakhs are to natives and 144 lakhs to Europeans?—Yes, because they cannot help it.

9833. Which, of course, is just opposite to what you say about them here. In paragraph 40, sub-paragraph II. on page 651 of your memorandum you say: "It is said the proportion of advances of the "Bank of Madras made to Indians and Europeans is "6 to 1"?—Yes.

9834. That is wrong; it is quite the contrary?—I do not agree. You can say 6 to 1.

9835. This letter of Mr. Hunter's is a letter just received within the last few days, I think?—It is six times the amount as compared with the Europeans.

9836. No, I say it is six times to the natives?—Yes six times to the natives compared with the Europeans.

9837. How can you say that they do it partially, or that they do not do it in the interests of natives when five-sixths of the Madras Presidency Bank's capital and reserve of deposits are used by natives and one-sixth by Europeans? Therefore your inference is not quite correct when you say: "It is said the proportion of "advance of the Bank of Madras made to Indians and "Europeans is 6 to 1"?—I say that the amount of advances made to Indians is six times more than the advances made to Europeans.

9838. You ought to have said that it was 1 to one and 6 to the other. You say: "It is said the pro-"portion of advances of the Bank of Madras made to "Indians and Europeans is 6 to 1." You mean it is six times to the natives and one to Europeans?—Yes, one to Europeans.

9839. Yes, but that is not so; it is six times to the natives and only one to Europeans?—That is what I say.

9840. I think it is a mistake?—Probably the language is not quite happy.

9841. What you mean is that you have found that most of the money of the Madras Bank is lent to Europeans and not to natives?—No; I am sorry if my language has led you to think that.

9842. Then what do you mean by this: "The "Presidency Banks have responded to the require-"ments of some of the large European trading interests. "They have financed some particular crops which they "have found most convenient to their own ends. So "far as I am aware, they have no systematic scheme "or sympathetic desire to finance Indian trade or "industries." You are wrong there?—How?

9843. We find that the bank has advanced six times to the natives what it has to the Europeans, and I think it is assisting native industries much more than the European?—It is seeking investments of funds. It is not necessarily assisting the industries on any system.

9844. If language has any meaning at all it says that the finances are partial to Europeans and that much more goes to them and less to the natives. That is the meaning, I take it?—No, the loans are made more to the natives.

9845. Then where does the want of sympathy come in if the amount is more to the natives?—That is where the Foreign Exchange Banks come in—they must invest money there in their own interests. It would to a certain extent go to assist Indians with funds necessary to their own ends, but it would not make any systematic scheme for financing industries.

9846. What is a systematic way of doing it? Would it be giving money to industries which could not pay back the money?—Not necessarily.

9847. Then why do you call it unsympathetic and why do you say that the natives do not get the advances so much as the Europeans, and that the native industries are not assisted, when five-sixths of the money of the bank is lent to Indian industries and Indian natives and only one-sixth to Europeans?—I would expect 99 per cent. to go to Indians with a systematic scheme for the purpose of developing Indian industries.

9848. That is to say, without security?—Not necessarily.

9849. Then, which is the industry which has not been given the advance that you know of and which has been rejected, and yet is very sound according to the rules of banking?—I do not know whether the Presidency banks——

9850. You have made a statement——

9851. (*Chairman.*) Let us have the witness's answer to your question, Sir Shapurji. (*To the witness.*) Sir Shapurji asks: What is the industry which you think has not received the assistance which it ought to have done?—Do you mean the particular industry?

* *See* Appendix XLI., page 722.

9852. Yes?—I do not think any industry has received any systematic help.

9853. (*Sir Shapurji Broacha.*) I do not know in Bombay of an industry which has not?—In Bombay it may be so; it is quite possible; and there they have the cotton industry.

9854. The Secretary of the Bank of Madras says that five-sixths of the money is given to natives and one-sixth to Europeans, and you say that 99 per cent. ought to go to natives? is that it?—It might go.

9855. And yet it is not native money, even. In the Bank of Madras, according to you, four-fifths of the shareholders are natives and one-fifth Europeans?—But what is the proportion of the deposits in the Presidency banks?

9856. Some of it is native and some of it is European?—What part belongs to Indians?

9857. I think you can take it about two-fifths to Europeans and three-fifths to natives?—I do not know the proportions.

9858. Capital and everything with it?—I should think the Indian deposits would be more than that.

9859. No, there is no thinking, excuse me. On the contrary, I say it is so?—I have not got the figures.

9860. How are native banks' directors appointed, and how are any bank's directors appointed? For instance, take your bank. How are they appointed every year? You say that the directors are appointed by themselves?—Yes.

9861. And there are very few attendances?—Yes.

9862. How is it in the native banks?—There it is by the shareholders.

9863. In the Bank of Madras by the shareholders and in the Bank of Bengal ——?—But they do not attend.

9864. Should they be brought from their houses to attend? In your bank I do not think there is a quorum on the day of the meeting except there is a liquidation, or some fraud, or something, and then all the shareholders come and vote, but in all the native concerns, just as you say of the Bank of Bengal and the Bank of Madras, it is difficult to find a quorum?—That is not my experience.

9865. That is my experience?—It may be in Bombay.

9866. Madras is a different thing?—In my bank it is much better than that.

9867. I ask you: Do you appoint the directors?—The shareholders appoint them.

9868. In the Madras Bank who appoints the directors?—The shareholders are always absent.

9869. Why do you not write to them and get their attendance?—Keeping the value of the shares at a high figure reduces the number of people holding those shares.

9870. When you speak of gold certificates, against what are they to come—against gold?—I do not follow.

9871. You say that gold certificates should be issued against gold?—I do not think I say that.

(*Chairman.*) Will you quote the reference to the paragraph in the memorandum to which you are referring, Sir Shapurji?

9872. (*Sir Shapurji Broacha.*) In paragraph 19, sub-paragraph I., page 639, you say: "By the introduction "of universal currency notes redeemable only in gold"?—Yes, it is not certificates.

9873. How will you increase it?—Just discourage gradually rupee notes.

9874. Then suppose I tender 10 sovereigns I get 10 notes?—Sovereign notes.

9875. And then I take 150 rupees and ask for 10 sovereigns; what about that; how will they give it to me?—I want the Government to take that obligation of giving sovereigns for rupees.

9876. What will you do with the rupees? They will disappear?—They must.

9877. You would discard rupees and make a gold currency?—Yes.

9878. (*Chairman.*) I just want to ask one question before we conclude your evidence. In discussing the question of a central bank you discuss the suggestion that the note issue should be handed over to such an institution, and in paragraph 27, sub-paragraph X, page 645, you raise the objection that "People in India have "implicit faith in the British Government"?—Yes.

9879. "Bank notes, even with Government guarantee, will not be accepted"?—No.

9880. Do I understand you to hold that the addition of a new name to the Government name on the bank note would destroy confidence in it?—I think any change in the form would, and that it would create suspicion of Government guarantee if they were issued by another body.

9881. If there were a State Bank under a considerable measure of Government control you think that would not be sufficient to inspire confidence in the notes of the bank?—It will arouse suspicion and distrust.

9882. Do you think that would be difficult to overcome?—Yes.

9883. Do you think that it would be more than a temporary hesitation induced by the change?—It would take some time before confidence was restored.

9884. That would not apply to the introduction of a new form of note such as you are suggesting, a gold note?—No, because that is quite a different kind of thing, provided that the Government does it.

9885. Provided that the guarantee of the Government is direct?—Yes, undoubtedly.

9886. And indicated on the face of the note?—Yes.

The witness withdrew.

Mr. STANLEY REED, LL.D., called and examined.

9887. (*Chairman.*) You are, I think, editor of the *Times of India*?—I am.

9888. Would you mind telling me how long a time your Indian experience covers?—I have been in India nearly 17 years, and have been editor of the *Times of India* for nearly seven years.

9889. You have been good enough to supply us with a memorandum which, I think, indicates your views pretty fully. I propose to take that as part of your evidence;* I think it will save your time and ours. You lay great stress in what I may call the introductory portion of your memorandum on the great economic, social and political changes which have taken place in recent years?—Yes.

9890. I think the inference you draw, and wish us to draw, is that having regard to those changes a good deal in the financial management of India has got to be reconsidered?—I should say has to be transferred to India in the way of actual management, and I think these changes would induce a very much greater sense of stability in the matter of financial policy.

9891. That, of course, as you recognise, may involve very large legal and constitutional changes?—I had not looked upon it in the light of involving very large legal or constitutional changes; I regard it rather as a natural corollary of the policy which was adopted in 1909 of setting up a large Legislative Council in India of a distinctly representative character and making the Government of India more susceptible to organised criticism and more open to organised attack (if I may use the word) than it ever has been in the past.

9892. I want to be sure that I have not misunderstood you. I gathered that as part of that change or transfer, and indeed the main part, you thought that the Secretary of State must divest himself of a great deal of the control which he had hitherto exercised?—Yes.

9893. And that it must be transferred to the Viceroy in Council?—To the Governor-General in Council.

* *See* Appendix XXXI., page 662.

9894. That is what I had in mind when I suggested that your proposals involved very considerable legal and constitutional changes?—I should like to be shown where legal and constitutional changes are necessary to give the Governor-General in Council greater control over the administration of Indian finance.

9895. It may perhaps be largely a question of degree, but if the ultimate responsibility is to rest with the Governor-General in Council instead of with the Secretary of State, that would mean great changes, would it not?—It would, but that is not my proposal, nor could that be proposed by anybody cognisant of the supreme responsibility of the Secretary of State to Parliament for the government of India. The Secretary of State must of necessity retain the power of ultimate control, as he deliberately did in 1909, when against the recommendation of the Government of India he insisted on an official majority in the Imperial Legislative Council; so that although the powers and the numbers of the Council have been so largely expanded, the Secretary of State, as the spokesman of of Parliament, has still the right to enforce his decision on that Council at any time when he likes to call upon the official majority to carry into operation his will. I do not think that anybody could propose that those conditions should be changed, but subject to the supreme control of the Secretary of State, what I would venture to urge is that there must be larger discretion vested in the Government of India in the practical administration of Indian finance.

9896. I think I understand now the character of the changes which you suggest. I want to turn from those general considerations to some of the particular observations which you have made. In paragraph 12, page 666, of your memorandum you say: "The policy "now pursued, as disclosed in the evidence before the "Commission, is to hold all the surplus funds of the "Government of India, over and above the prescribed "working balance, at the disposal of the Secretary of "State, for him to remit to London through Council "Bills up to the maximum demands of trade." You have before you the paragraph from which I have quoted, have you not?—Yes.

9897. And the subsequent paragraphs which continue your ideas. I am not quite clear as to what your criticism is. Do you think that the Secretary of State gets more money over here than he can usefully employ?—That is impossible.

9898. If India has got money available—if there are large surpluses of revenue—in what way can it be better employed than by drawing it to this side for expenditure in reproductive work in India?—In raising the whole standard of administration in India and in pursuing that policy of continuous amelioration which has been well said to be the foundation of British rule in India.

9899. Then your criticism on these points is directed to the policy of financial railway development and irrigation work out of revenue?—Yes.

9900. And your desire is to see the whole of the surplus revenue devoted to educational or social amelioration?—I put it shortly as education and sanitation, using those terms in the widest sense. That, of course, involves practically every branch of the administration of the Government of India. You may take it as an established fact that there is no branch of the administration of the Government of India, and there is not one of the progressive and ameliorative agencies which is not, generally speaking, extremely short of funds. I have seen an estimate made that the whole of the normal growth of the revenue of the Government of India for the next ten years could be devoted to paying Government servants a living wage. That may be an extreme statement, but there is scarcely a branch of the subordinate establishment of Government which is not grossly underpaid; there is no branch of education, of sanitation, or of medical relief, which is not in need of incalculable funds—I will not say at this particular moment, because as the result of a series of surpluses the provincial Governments are well established with funds, but I lay it down as a general rule. That is the condition throughout the whole of India.

9901. I do not want to go into these matters in any detail, because, of course, they do not come within the terms of reference to us. I only allude to it because that is the reason, I understand, for which you propose, as a corollary of what you have just said, that reproductive works in India should be carried out by borrowing?—By borrowing.

9902. I think you say, shortly after the quotation which I have already made, that the Indian market should be used as largely as possible?—Yes.

9903. Do you think that it is possible to raise much more money in India than has been done by the Government in recent years?—I think it is possible to raise substantially larger sums, provided that there is simultaneously a reform of the system of treasury management. The two matters are closely interrelated, and you cannot have one to a very large extent without the other. I am informed that it ought to be quite possible to raise a loan of five crores a year in India as matters stand, but you cannot expect to raise large sums in the form of Government paper in India if the surplus revenues of Government are withdrawn from the market and locked up in the reserve treasuries, as one of the results of which there is a very high bank rate every cold weather, when Government paper is depreciated, and when it has been on occasions no security for loans. When I say "no security" I mean money has not been available for advances against it.

9904. Perhaps we had better pursue that subject a little further now. What do you suggest as a reform of the treasury system?—I suggest that the balances of the Government of India over and above their prescribed working balance, and over and above the budgetted demands of the Secretary of State for the financial year, shall be automatically released for the lightening of the money market.

9905. You say "automatically released." How would this automatic process take place?—You come to the question of the reserve treasuries. It seems to me that the whole question of the reserve treasuries which withdraw this money from use has passed entirely out of the original conception of reserve treasuries. The original conception of the reserve treasuries was to provide 2 millions—I do not know whether that was sterling or rupees—afterwards increased to 3 crores, as a reserve for Government; and as I understand the despatch,* the Marquess of Salisbury in sanctioning that procedure, did not contemplate that even this sum should be absolutely and arbitrarily withdrawn from the market. As I read the despatch, he intended that, at the discretion of the Government of India, it should be lent out on approved conditions. What has actually happened is that the amount in the reserve treasuries has grown out of all proportion to the original conception, while simultaneously there has been a great shortage of loanable capital in the busy season, and in the case of the current year almost before the busy season has arrived.

9906. I want to get rather closer to the facts if I can. When you speak of the money being withdrawn from the market you mean that the taxes are collected at that time?—The taxes are collected at that time, and the product of loans also is swept into the reserve treasuries, I understand.

9907. At the same time of the year?—Not quite at the same time of the year, because taxes are collected rather from December onwards, whereas Government loans are raised in the slack season; but there was very strong complaint, even in the current monsoon, of the rapidity with which the product of the Government loan was swept into the reserve treasuries, with the effect of hardening the money market.

9908. But the main complaint, as it has, I think, been presented to us—and possibly you would not differ from that presentation of it—has been that the Government sweeps into its treasuries at the busy season of the year a very large proportion of the taxation?—Yes.

9909. And that, as it has collected those taxes to meet its needs throughout the whole year, it does not

* Cd. 7070, pages 32-5.

pay the money out at once, but only dribbles it back by slow degrees?—That is so.

9910. Therefore, it is only in the sense that they collect their taxes at that period, and that they do not at once pay the money out, that they withdraw it from the market?—That is so.

9911. They cannot pay it out in fulfilment of their obligations at that moment, because their obligations have not matured?—No.

9912. Therefore, what you wish them to do is to lend, I think?—To lend the money.

9913. To whom are they to lend?—That question was discussed in some detail in August, when the Finance Minister of the Government of India was present in Bombay and met the Committee of the Chamber of Commerce on this very question. I am not a member of the Committee of the Chamber, and I can only speak really from second hand as to what actually occurred at that meeting, but I think I am correct in saying that although diverse interests were represented, it was the practically unanimous conclusion that the money should be lent through the Presidency Banks.

9914. And to them alone?—And to them alone. I think that the proposal which has been made, that money should be lent outside the Presidency Banks, is open, in the peculiar conditions of India, to rather strong objection.

9915. Will you particularise a little?—I will particularise in this way, that there has been a considerable extension of banking in India, and some of these banks conduct their business on different lines from other banks; and I think if you had a list of approved borrowers upon which banks were put, considerable pressure would be brought to bear on Government to include in that list banks of whose method of doing work purists perhaps might not approve. Of course, it is said that the security of one bank is as good as the security of another bank, but that, I think, is open to strong qualification. What the Government want when they advance, assuming that they advance against security, is not to have their own security thrown back on their hands, but to have their money back; and whereas one bank tendering Government paper might so employ the money that it would be readily returned when wanted, another bank might so employ that money that when the moment arrived it could only forfeit its security, which would be a source of considerable embarrassment to the Government. As security against the pressure which would, I am certain, be exercised in those circumstances, I do think that it is most desirable that such loans as are made in the existing conditions should be made solely and absolutely through the Presidency Banks.

9916. Therefore, you would not at all share the view which was expressed to us by another witness, that if the loans from the Government balances cannot be made to all banks capable of tendering a certain quantity of Government security, they should not be made to any bank at all?—Most decidedly not.

9917. I think it follows from what you have said that you assume that these loans would only be made against approved security?—I would rather suggest that this is a matter for negotiation between the Government of India and the Presidency Banks. Personally I should be loath—not that my opinion is entitled to much consideration—to lay down any hard and fast rule under which those loans should be made. I think that the Finance Member of the Government of India is perfectly competent, assuming he has the discretion, to lay down conditions under which these moneys should be advanced.

9918. You would not be inclined, therefore, to fix any rule or any relation to bank rate for these loans?—I would not be inclined to fix any rate whatsoever. I think I am right in stating that at the particular meeting to which I referred—I think it was in August last—it was also almost unanimously agreed that it should be something under bank rate; but having no interest whatsoever in the Presidency Banks, I think from the point of view of the general public it is far more important that these moneys should be released in the busy season than that Government should stick out for another quarter, or half, or even 1 per cent. I say that because I am interested to a considerable extent in industrial concerns in the west of India, and I am associated, either as director or, in one case, as chairman, with companies with a capital of nearly 700,000*l.* sterling, and therefore I speak with some practical experience of the difficulties which are raised by these abnormally or exceedingly high bank rates in the busy seasons.

9919. Your difficulty with regard to the bank rate in India—although I do not wish to underrate it—is a very temporary one, is it not?—The average bank rate is reasonable, but the busy season bank rate is high, and the proposal that Government should release its balances through the Presidency Banks has sometimes been criticised on the ground that it would bring the average bank rate so low that banks could not afford to offer terms which would attract depositors. To that proposal I demur for a very strong reason, and it is this. First of all, I think the season is of necessity made shorter when the bank rate is so high that people are forced to part with their produce because they cannot carry it; secondly, even in these conditions there is already manifest a tendency in India to spread the busy season over a greater proportion of the year. In order to make quite certain of that fact, I asked the Chairman of the Bombay Port Trust what his experience was, and he told me, and I have the figures here. They are rather subtle, but the general conclusion was that the whole tendency of trade was to spread itself over more evenly through the year instead of concentrating on January, February, March, April, and May, closing down before the monsoon. It seems to me that if you had a more even bank rate, or a more regular bank rate, the average bank rate in all probability would not decline, because you would have a greater demand for accommodation all the year round.

9920. Speaking generally, as far as your experience goes, would you say that not for temporary accommodation in the busy season, but for accommodation spread over a longer period, the rates are otherwise than moderate in India?—For accommodation spread over the whole year rates are moderate on good security. Rates are distinctly moderate.

9921. And the difficulty is this busy period?—The busy season.

9922. To what extent would these loans to the Presidency Banks, if arranged on some such basis as you have sketched to us, reach all classes in India?—It is rather hard to say, because Presidency Bankers alone are competent to discuss that point. I think that they would certainly reach the exchange banks if they wanted the money; I think they would reach all the substantial swadeshi banks; and I think there is every reason to conclude that they would reach all classes who were accustomed to borrow on reasonable credit.

9923. Do you think the benefit of a reduced rate would really filter down to the cultivator? That is what I have in my mind. Perhaps I may say that I ask you the question because some witnesses have suggested that the benefit would not get very far beyond a limited circle if the loans were confined to the Presidency Banks?—Would you mind if I answered that at some slight length?

9924. No?—I am a director of the Central Co-operative Credit Societies Bank, with which Sir Shapurji is associated, which was formed for the special purpose of financing co-operative credit societies. That bank, or rather the movement of which it was the upshot (a movement started by the Bombay Government) was established because it was impossible to reach the cultivator through the ordinary mechanism of credit. Many years ago there was a strong demand in India for a State Agricultural Bank on the lines of the Egyptian Land Bank. I think it was the late Mr. Samuel Smith who came to India and pointed out at a meeting held to consider this subject that the demand was based on the fallacy that the agricultural conditions in India were at all comparable to the agricultural conditions in Egypt. He then showed that almost the whole of the Egyptian crop, being

an irrigated crop, was a certain crop. It might be a good crop or it might be an indifferent crop, but it was a crop. That is not the case in India. In the dry zone in India in any year you may be advancing on a piece of bare land which does not produce a blade of grass, and for that reason, as far as I can see, it is impossible to conceive of any land bank worked on the ordinary lines which can carry credit to ryots in the dry zone. The credit of ryots in the dry zone must of necessity come through the co-operative credit societies. The difficulty was—or rather the question was—how to get that money into the co-operative credit societies, and the bank of which I am speaking was started, not from philanthropy, because we hoped to make a dividend, but for the special purpose of bringing money to the co-operative credit societies; and I am assured that already it has been a boon in that direction. I do not know whether you understand the principle upon which this bank works.

9925. I think I do sufficiently for the purpose of understanding your answer?—We work partly upon Government guaranteed debentures, and all the profits over 6 per cent. are divisible between the shareholders of the bank and the societies. The cheaper we get our money the more there is to go back to the societies, so, in the first place, if we can get money from the Presidency Banks on our security as freely as we want it, there need be no restriction whatsoever on the amount of money we advance to the societies comparable to their security; and, secondly, there will be a larger profit divisible at the end of every three-yearly valuation, and consequently they will get their money more cheaply.

9926. So that in general terms your contention is that even if the loans were confined, as far as the Government was concerned, to the Presidency Banks, they would, through the different channels which you describe, filter down to all classes?—To all classes.

9927. And not be confined merely to assisting certain great houses or certain great industrial concerns?—I think that theory is absolutely untenable.

9928. Now I return to the point we were discussing when we diverged to follow up that enquiry. I understand that however much importance you attach to education and sanitary improvements, you do not desire to see the development of reproductive work stopped?—No.

9929. Am I right in thinking that the printed proposals which you have laid before us* are dependent upon the assumption that either in India or in England you can borrow sufficient to carry those works on?—Substantially, yes.

9930. I think you have intimated that in your opinion the Government could safely issue rupee loans in India under present circumstances up to—was it 5 crores?—It is not my opinion, because my opinion on a financial matter like that is valueless, but on inquiry amongst those who are cognisant of the state of the money market, that is the opinion that is given to me—that even under the present conditions the Government could reasonably raise 5 crores a year in rupee paper.

9931. I think that is putting it higher than the witnesses who have come before us have done?—It is the figure which was given to me just about the time I came away.

9932. You think that that figure would be further increased if there was less strain at the busy season on the money market?—Even if that figure was not further increased, the amount of money Government could take off or could attract from the market is capable of considerable expansion with a wider variety of conditions. That is particularly the case with feeder railways. After a very long fight we have now got down to reasonable terms for the construction of feeder railways, with the result that there are now proposals before the Railway Board for feeder railways to be constructed by private enterprise with an aggregate capital of 8½ crores of rupees. I think in reasonably good years the amount of money that could be taken off the market for feeder railways on the present terms, provided schemes go through with reasonable expedition, is very large indeed, and I think I might also say that the greater part of the railway extension of India can be financed on feeder railway terms, leaving the direct Government borrowings for the needs of the open lines.

9933. When you have made full allowance for all the money you can obtain in those ways, what do you think would be your annual demand on London?—That is a question I could not answer.

9934. Should I be wrong in saying that it would still be considerable?—It would be considerable.

9935. Especially as, I suppose, you would like to see a great deal of irrigation work done as well as railway work?—Undoubtedly.

9936. Do you think it is safe to count on raising the whole of that by loan in India and not paying any portion of it out of revenue?—It seems to me that the economic condition of India to-day and the financial position of India to-day is almost without parallel in the world. At least, if there is any country which can show an equally good profit and loss account, I do not know it.

9937. I am not suggesting for a moment that the credit of India has deteriorated or is bad, but I was rather asking you whether you think that the money would be forthcoming even for such excellent purposes and with such excellent security?—Having regard to the figures of the export of British capital to countries whose credit is certainly not better, or ought certainly not to be better, than that of India, it seems to me that if India could not raise this amount of 5,000,000*l.* or 7,000,000*l.* a year (assuming that to be the sum) in London, there must be some defect in the way in which Indian credit is exploited in London.

9938. Do you think that they could count sufficiently upon raising the sums which would be required at the present rate, or are you contemplating that they would issue loans carrying a higher rate of interest?—That is rather a banker's question, but it strikes me in this way. You cannot raise loans on the general security of the revenues of the Government of India at a higher rate than 3½ per cent. without depreciating your 3½ per cent. paper, and in that way causing a serious injustice to those who have taken it up, but it seems to me that there ought to be many subsidiary stocks carrying perhaps a slightly higher rate of interest which could be put upon the market. More especially is it the case when, as I think I am correct in saying, practically the whole of the Secretary of State's borrowings in England are spent in England; they are not sent out to India in the form of money, they are sent out in the form of locomotives and rolling stock and rails. I should imagine that that would be a factor of some considerable importance in strengthening the credit of India in London.

9939. If these balances were made available for loans to the Presidency Banks, to what extent do you anticipate that the Presidency Banks would take advantage of them?—That is a question upon which my personal opinion is absolutely valueless, as I say, but I was at some pains to enquire amongst those who would be likely borrowers from the banks, assuming that this system was set up, and the figure which was given to me by a gentleman who is certainly of the very highest authority, was that, not in the first or second year perhaps, but if the money were available, the money market could take a sum up to 5,000,000*l.* sterling.

9940. For what sort of period do you contemplate that the Government would lend?—That is a technical question upon which, as I say, my opinion would not be worth having.

9941. I will not then press those questions any further, but I would just like to put a couple of questions to you about the Secretary of State's drawings. You would, I suppose, agree that he must withdraw from India whatever sums he requires to meet his home charges?—Undoubtedly.

9942. And you would include in his home charges, not merely his immediate necessities from day to day, but his prospective necessities as he can foresee them?—For the whole of the financial year, certainly.

* *See* Appendix XXXI., Section III., pages 666–7.

9943. Would you agree that it is his first duty to put himself in a position to meet those charges?—Up to his budget requirements for the whole of the financial year, certainly.

9944. And he must draw to meet those charges as he can?—As he can.

9945. I pass away, then, from that, and I pass to the reserves. You support the existing Gold Standard Reserve?—Entirely.

9946. I understand that you wish to see it increased as rapidly as possible?—I should like to see the whole profits on coinage, and the whole of the interest on the invested portion, accrue to this reserve automatically without limitation for as far ahead as we can see.

9947. And with regard to the treatment of the reserve, do you fix in your own mind any sum which ought to be held in liquid gold—in actual gold?—My own personal view would be that the whole should be held in liquid gold. Of course, the objection has been raised that it is an unnecessary waste to hold money in liquid gold, but I have very rarely found that objection advanced by Indians who, after all, would primarily suffer if there were any diminution of the revenues on that account. So far as I can understand the Indian position and express it, it entirely endorses the view which was put forward, I think, to the Commission by Sir Shapurji Broacha, that there should be no limit to the reserve, for as far ahead as we can see, and that as much as possible, if not the whole, should be held in liquid gold.

9948. You say in your memorandum (p. 667, para. 17) that this process should go on until the reserve is at such a point as establishes beyond doubt that it is sufficient to meet all reasonable requirements. What, in your view, is the measure of the reasonable requirements?—I do not think that anybody is competent at the present stage to express an opinion. I do not think we have had enough experience, nor shall we have experience enough for 10 or 15 years——

9949. If you will forgive my interrupting, you a little misunderstand my question. I am not asking you to fix a limit at all, but I am asking you by what conditions you think the requirements of the fund are governed. For what purpose does the fund exist?—I take it that the fund primarily exists to support exchange in the event of an adverse balance of trade.

9950. Is the extent to which it ought to be accumulated then in some way dependent upon the growth of Indian trade? As Indian trade grows, and as the effect of a possible bad year therefore becomes greater, should the reserve vary in some proportion to that?—Certainly.

9951. Do you think that the amount of rupee coinage in existence has any bearing on the amount of the gold standard reserve?—That is a rather subtle point, because you open up the question then as to how far the volume of the token coinage conditions the drain on the reserve. The point has been put forward, and it seems to be a strong point, that more rupees are not likely to flow back upon Government demanding redemption in gold than are necessary to liquidate the balance of trade, but to that I think there is a very important qualification, inasmuch as we know that there are certain Indian investments abroad, and I think it is highly probable that with the increased yield from foreign stock those may grow larger; and I do not know if that estimate takes account of the considerable remittances that are made on private account. Therefore it is not an absolute rule, and the question is a rather more subtle one than I should care to offer a dogmatic opinion on.

9952. For a practical guide to the Commission for a moment, you say that no reserve that we can at present contemplate is too big?—Certainly.

9953. And no amount of actual gold which we can see the possibility of collecting is too great to hold?—No.

9954. Have you any opinion to offer to the Commission as to where that gold reserve should be held?—I think the gold in the reserve should be held in India. I think also it should be brought under statutory control by an Act passed through the Imperial Legislative Council.

9955. Let me take the two opinions separately. You say first that it should be held in India. Will you please give me your reasons for that?—My reasons are twofold. I think it can be established beyond reasonable doubt that the course of policy pursued with regard to the reserve has weakened the confidence we ought to feel in the reserve. I think it is a matter of primary importance to restore that confidence, and I think that confidence can be restored most quickly and most definitely by placing the reserve in India and under statutory control.

9956. Assuming that there were in any case statutory control, I understand that you still attach importance to the actual gold being kept in India?—I do, because it is difficult to conceive of a statutory regulation of the reserve unless it is in India. Acts of the Imperial Legislative Council are not binding upon the Secretary of State except so far as he thinks fit to be bound by them. I think that is the constitutional position. Moreover, even if the statutory control were made absolute, I should say as a matter of policy that it is desirable to keep that money in India, and I think that for this reason: There has been no doctrine more assiduously preached in India in the last 25 years than the drain of Indian resources to London. That doctrine has been preached in season and out of season for some 20 or 30 years, until a very large section of the community is saturated with the belief that all moneys drawn from India to London are a drain on India and that India's development is being restricted thereby. No amount of argument, I am afraid, will break that down, and although so far as the ordinary home charges are concerned, there is not, of course, a shadow of justification for it, I do think that the holding of any Indian reserves in London beyond those which are absolutely necessary in London is undesirable on that ground.

9957. I gather then that your reason for desiring the reserves to be held in India is what I may call a political rather than an economic reason?—No, I give that as an entirely subordinate reason. My main reason is that confidence in the reserve has been shaken, as I think will be admitted, and that it is most desirable to restore that confidence as soon as possible, and that that confidence will be most quickly and most firmly restored by bringing the reserve to India and placing it under statutory control.

9958. A great deal of the prejudice which you speak of as having been excited against the drain of funds to London is on the assumption that these funds when in London are used to benefit the London money market instead of the Indian money market. Is not that so?—When I speak of the drain theory, I am not speaking of the recent discussion about the accumulation of balances—I am speaking of the normal drawings of the Secretary of State for his home charges. It is one of those matters which have been widely misunderstood, partly, I think, because of the means by which it is done. I think there is a great deal to be said for the view that if the Secretary of State's remittances from India had been carried out by ordinary banking mechanism such as I understand remittances made by other countries to the places where they have to discharge their debts have been done, the drain theory would never have assumed the deep importance which it has assumed; but these drawings and these remittances being made every year *coram populo*, sometimes under conditions which excite comment, has focussed and exaggerated the importance of the drain theory.

9959. What I wanted to put to you was this: If you keep the whole of your Gold Standard Reserve in actual gold, whether it is kept in India or in London, it would be of no assistance to either of the money markets?—No.

9960. Therefore, if it were all kept in actual gold and no portion of it were lent out on security of any kind, it could not be suggested that the reason of bringing it to London was to ease the London money market?—No.

9961. On the other hand, its principal object as declared by you being the maintenance of exchange, where will it be wanted when the exchange crisis arises?—The actual debt which is not liquidated by

the balance of trade, of course, must be discharged in London.

9962. So that if it were held in India and a crisis arose which forced you to have recourse to it, the first thing you would have to do with it would be to ship it to London?—Yes, certainly.

9963. Have you in your memory the course of events in 1908 and 1909?—Yes.

9964. There was some delay in making use of the gold resources which the Secretary of State and the Government of India then possessed?—There was.

9965. Do you think that that hesitation to use them was a mistake?—Undoubtedly. I think it was a most disastrous error.

9966. You think they should have been used at once and freely?—Without hesitation.

9967. Then might it not be desirable that at the next crisis this gold reserve should be in the place where it would be immediately wanted; that is to say, would it not be *pro tanto* a disadvantage if at the moment when you wanted it in London it was in India and you had to ship it home to London instead of finding it there?—It is rather a banker's question to answer as to whether the fact that the gold is actually in London instead of being on its way to London would exercise any material effect upon the market. It seems to me, as an outsider, difficult to believe that bankers would draw any material distinction between gold on the way and definitely assigned to them and gold in London which was being released by bills which were being brought by the mail steamer.

9968. I will take that answer. I am not a banker either, but I should have thought it sometimes depended upon whether you had the gold or only the promise of gold?—It is something more than a promise of gold, it is gold actually on the way. It is gold actually on the ship definitely consigned to a particular market for a particular purpose.

9969. Now let me go to the other condition which you set before us. You desire that the Gold Standard Reserve shall be under statutory regulation?—Yes,

9970. Can you tell me what statutory regulation you have in mind?—I have in mind an Act of the Imperial Legislative Council in India stating that the whole of the profits on coinage and the whole of the interest on the invested portion of the reserve shall be added to the reserve without limit: and I have in mind also a declaration that this reserve will be freely used for the support of exchange the moment an adverse balance of trade sets up. It seems to me, with a rather vivid recollection of the events of 1907–8 and 1908–9 in my mind, that the present position with regard to that reserve is an extremely dangerous one. You have the reserve, but there does not seem to be any very definite concrete assurance as to exactly how it will be used in an emergency. We have had the Secretary of State saying that it will be used, but I fancy not committing himself to the manner in which it will be used; and we have had a declaration by the Exchange Banks that they look upon the Secretary of State as bound to support exchange to the maximum of his powers when the time arrives. I think if you look back on the events of 1907–8, a great part of the drain of gold which took place then arose from the indecision with which the authorities acted when the emergency occurred. When the Exchange Banks asked if they could have gold, if they had been told they could have had gold up to five millions, six millions or seven millions, I am assured that they would not have taken gold; but when they were told that they could only have gold in small quantities, and when the whole position was extremely uncertain, they took all the gold they could possibly want so as to guard against being refused it later on: and it seems to me that any uncertainty with regard to the conditions under which the reserve will be used will be very likely to set up precisely the same conditions again, when everybody will rush to take every bit of gold that they can possibly get for fear that they may not be able to get it when they want it.

9971. I quite follow your argument, but I want you to help us by being a little more definite as to the practical steps to be taken. It is easy enough to say how the first of your statutory conditions, or the first two, can be put into a Statute. You can easily say in a statute that all the profits on coinage and all the interest, if there be any interest under your proposal, on the accumulated reserve shall be added to the reserve; but what are the statutory conditions as to the use of the reserve that you have in mind?—I do not want to go into any questions of the mechanism of finance, because I am not competent to speak upon that, but, so far as I understand it, the ordinary way in which that reserve would be used would be by the sale of sterling bills at a rate to be decided upon, and if that is so, in whatever direction it has been decided that the reserve shall be made available, it should be embodied in a statute.

9972. Do I understand that you would try to define in a statute the circumstances under which the reserve should be used and the rate at which in those circumstances sterling bills should be sold?—If practicable, certainly.

9973. You do not think it an impracticable proposal?—I cannot express an opinion. It is a purely banker's question.

9974. Would your objection to the holding of the gold standard reserve in London be minimised if the kind of conditions which you have laid down for it in India were applied to it in London?—As far as I am concerned they would, of course, be materially minimised, but whether they would be minimised in the eyes of a large body of Indian opinion which is asking, and continuously asking, that that reserve should be held in India, I should doubt.

9975. It is in this connection that you have called attention to the fact that the Secretary of State does not at the present time number among his financial advisers at the India Office any with Indian experience. Would your objections to holding the reserve in London be mitigated if that were altered?—It would make a difference, because you would always have the conviction that the Indian point of view, whether right or whether wrong, was before the Secretary of State at the time he acted. That conviction does not operate to the same extent now.

9976. Then from the question of the reserve you proceed to the consideration of a gold mint. You desire to see the Indian mints opened to the coinage of gold, or a gold mint established?—A mint.

9977. The main ground upon which you advocate it is: "That it would provide the machinery for the "rapid conversion of the great stores of gold bullion "held in India into currency when they came out under "pressure of famine" (p. 667, para. 20). Do you think that there is a very large quantity of gold bullion hoarded in India?—May I first of all slightly modify that opinion? I would say, first of all, that the question of whether or not there should be a gold mint is really a matter which ought to be within the administrative discretion of the Government of India; I would say, secondly, that a mint would be a very valuable step towards the more automatic regulation of the currency of India. It would secure that the gold which came into India in liquidation of the balance of trade came in in whatever form was most convenient. The Indian mint would conceivably, if arbitrage conditions were sufficient, take gold from South Africa or take gold from Australia; but whatever the conditions were, it would secure that the balance of trade would be liquidated in the most natural conditions and would not be so largely confined to sovereigns. Thirdly, coming to the other point, I think undoubtedly no one can travel about India without realising how largely gold has taken the place of silver in the ornaments of the people. There is, and must be, a large amount of gold bullion stored in the form of ornaments.

9978. So I should have supposed, but I think the last witness rather expressed the opposite view?—I have travelled very extensively in India, and it is a most extraordinary sight to see to what an extent gold has taken the place of silver in the ornaments of the people.

9979. Do you think that at the present time the gold which is imported into India has its form in any way arbitrarily settled by the fact that there is not a

mint open to gold coinage in that country?—If you bring in raw gold, so far as I understand—it is a point for bullion dealers—there is no market for it. The only bullion for which there is a market is the high touch gold which goes straight in for ornaments; but I speak with some reserve, because it is really a matter of which I know very little.

9980. There is really a considerable import of gold bars, is there not?—Yes. If I am correctly informed, those gold bars, which are high touch gold bars, come in a form which is very popular in India.

9981. But you think there is a demand for sovereigns which is not now satisfied, but which would be satisfied if a mint were opened for the coinage of sovereigns in India. Is that your view?—No, I should not say there was a demand for sovereigns which was not satisfied, because there are sovereigns in the Paper Currency Reserve, and there is a very large amount which is available there, but I do think it would settle the balance of trade in a more natural manner if gold bullion came in in the easiest and cheapest form, whether it was from South Africa or whether it was from Australia, instead of being necessarily confined, or to a very large extent confined, to sovereigns.

9982. That is really the opposite?—Yes.

9983. Do you attach importance to increasing the circulation of gold in India?—I do.

9984. For what reasons?—I think anything which tends to keep down the token circulation of the country must be a source of immense convenience to the Government. It must be a material step towards the automatic regulation of the currency, and must ultimately become a secondary buttress to exchange.

9985. Do you think that the gold which is at present in India would be much support to exchange in a crisis?—It is very difficult to say. The volume of the token currency is so large that it is very difficult to say if you would get down to the gold in any crisis which might develop at the present time.

9986. Perhaps you would think that I did not overstate the case when I said that at any rate under present circumstances a million pounds in the reserve would be much more valuable for the support of exchange than a million sovereigns put into circulation?—I should not think you were exaggerating.

9987. The only method by which the reserve can be increased, if your proposals for holding the whole of the existing reserve in actual gold are adopted, would be by the increase of the rupee coinage, would it not?—Yes, I think it would.

9988. Yet I think you are rather suggesting that it would be desirable to see gold replacing a part of that coinage, or any rate gold substituted for any growth of that coinage?—You have roughly 22 millions in the Gold Standard Reserve, I think to-day, and if there were no addition to the rupee coinage, you would have had 7 millions last year and 3½ millions this year and an indefinite sum in future passing into the active circulation of the country, which must by degrees build up a secondary reserve which will be available in emergencies.

9989. Do you think that on the whole the trend of currency operations among western nations is in the direction which you have indicated?—I should not like to express an opinion, nor should I like to draw any parallel, nor do I think any parallel can be drawn—I go further, and I say that any parallel which is drawn must always necessarily be defective—between western nations with a highly educated population and eastern nations with a literate population of some 5 or 6 per cent. I think an attempt to draw any parallel in economic conditions between eastern and western nations is necessarily bad. It not only affects currency, it affects all fiscal questions as well. It is necessarily suspect.

9990. If I pointed to a tendency therefore in certain advanced countries rather to withdraw their gold from circulation and to increase their reserves than to pursue the opposite course, you would reply to me that that may be wise for them, but it has no bearing upon a country like India?—I put it rather differently. It would not necessarily carry conviction to my mind, because I know of no western country where so large a proportion of the population is illiterate, where the same degree of suspicion exists, partly from existing political conditions and partly as a legacy from centuries of disturbance, and where the population by the very nature of their life is bound to so large an extent to a metallic currency.

9991. Yet in spite of all these objections the note currency has very much increased in recent years?—The note currency has increased and the cheque currency has increased. I think it is a rather remarkable testimony to the relative political health of the country that the note circulation and the cheque circulation have increased to the extent that they have.

9992. When you speak of your desire to see a larger currency of actual gold, do you carry your wishes so far as to desire that the Indian Government should actively stimulate the circulation of gold?—I should carry my wishes so far as to desire that the Indian Government should actively stimulate the circulation of gold and notes.

9993. And if it has to choose rather the one than the other, which should it press?—The Indian Government, if they had discretion in the matter, could not possibly choose between one and the other, because they would be so deeply imbued with the conviction that not only are both desirable, but that a metallic currency is equally necessary. I mean to say, if you follow the course of money from the bank to the ryot's house, you must see how absolutely essential it is for him, both now and for a generation hence, to be largely dependent upon a metallic currency. If a man took notes from a cotton centre like Amraoti or Khamgaon, and went to his village 25 or 30 miles away, they would be waste paper for him to a large extent. He would have nowhere to put them. If you go into a ryot's house you will see that he has got no strong box. If he has a chest of any sort, it is so flimsy that it is an invitation to the robber. If he puts his notes in his roof they are quite likely to be eaten by rats, because in an Indian household the rat lives in large numbers in intimate relation with the family. If he buries them in the ground, they might be destroyed by the monsoon or eaten by white ants or anything else. For that reason he must have metallic currency of some sort or other, because in nine cases out of ten he buries it in the ground. I think in that connection it is rather important to bear in mind the very great rise in the price of all agricultural produce which has taken place in India in the last 15 or 18 years, which has made the rupee a less—or I would rather put it a much less—satisfactory means of adjusting these transactions. When I went to India in the early part of 1897 cotton was sold on the basis of under 3*d.* a pound. The present price of cotton is 7·80*d.* per pound, and we were looking for a five million bale crop of cotton when I came away. If you consider the increased value of that produce and the large amount which the ryot must carry away when he takes his payment for it, I think you must also agree that some less cumbersome form of metallic currency than the rupee has become a necessity. I think that is one of the factors which have tended in the districts where large export crops are raised to the increased popularity of the sovereign.

9994. There is a difference between giving the public what they ask for and pursuing a policy which is intended to induce them to take one form of currency rather than another?—There is.

9995. I quite agree that Government must provide the currency which the people need, but you, I thought, suggested that Government should go further, and should specially try to increase the circulation of gold?—And notes. The Government are dealing with an illiterate population. The Government of India stands to the population in a very different relation from the Government of any other country towards its people, and inasmuch as, in my opinion at any rate, gold and notes are better forms of currency than token rupees, I do feel that it is up to the Government to encourage the circulation of both those better forms of currency.

9996. What is the Indian note? It is a rupee note, is it not?—It is a rupee note.

9997. It is encashable in rupees?—In rupees.

9998. But do you think that it is not open to the objections of the rupee token currency?—The Indian note is encashable in rupees, but there are an enormous number of sovereigns in the paper currency reserve, and I should imagine if these notes flowed back for encashment in very large volumes, it would be a matter of considerable satisfaction to the Government to be able to discharge them in sovereigns, particularly if the people had become habituated to a gold currency by an active circulation of gold.

9999. As you say, there is a great deal of gold in the paper currency reserve. There is some silver in the gold standard reserve. Have you any observation to make upon that?—It is one of the extraordinary tangle of incongruities which has focussed discussion so much on this currency question. You have gold in the paper currency reserve in London; you have silver in the gold standard reserve in India. That silver in the gold standard reserve was originally put there against the strong protests not only of commercial opinion throughout the whole of India but of Sir Edward Law who founded the reserve, and he wrote, not only in the "Times" (which was quoted, I think, by the Calcutta Chamber of Commerce) but in the "Nineteenth Century," in criticism of that proposal. It seems to me, to take another phase now, that the silver in the gold standard reserve, which was first put there to facilitate the provision of rupees, is kept there now to facilitate the sale of Councils, and that these successive steps and departures from the very clear and logical principles upon which the gold standard reserve was founded are very strong factors in inducing that unfortunate mistrust which undoubtedly exists to-day.

10,000. You will perhaps agree that the Indian Government has had very difficult problems to solve in relation to these matters, with very little experience to guide them?—That is so.

10,001. And that under those circumstances it is not altogether a thing to be surprised at if they have sometimes varied, and if their purpose or the methods by which they carried out their purpose, were not always perfectly clear or perfectly logical?—That would be so, but at the same time, I would venture to point out that what is now reckoned to be, or what very many influential witnesses have put before this Commission, as the policy to be followed, is the policy which has been pressed upon the Government of India by large bodies of commercial opinion from the very first.

10,002. I presume there are a good many people in India who would not mind admitting that they too have changed their minds in the light of later experience since this matter first came prominently before the public?—I think he would be a very rash person who said he had not changed his mind.

10,003. But I gather that in any case a good deal of the mistrust of which you speak, or of the uncertainty of which you speak, arises from the fact in your opinion that the Indian public has been unable to understand why things were done or to work out the principles upon which they were done?—It is undoubtedly the case that there has been a most unfortunate ignorance of the principles upon which certain measures which have been strongly criticised have been done, but at the same time, I think that even if those principles had been understood, there would nevertheless have been a strong demand for the modification of them on the general lines which have been indicated.

10,004. One of the principal reasons for which you desire that greater administrative autonomy in matters of finance in India of which you spoke at the beginning of your evidence, is because, as I understand, it would give the Indian public a means of inquiring and ascertaining what were the principles upon which the Government was acting?—That is hardly so. The Imperial Legislative Council as it is constituted to-day gives every reasonable person in the political conditions of the country every reasonable means of bringing his opinion to bear upon the Government of India, and of eliciting information from the Government of India; but if the Government of India have no power in the matter, if in some cases they have no knowledge, or if, when they are convinced by their critics that the point of view of their critics is right, they are unable to defer to that criticism, the use of the Imperial Legislative Council for the very purpose for which it was created is very seriously impaired.

10,005. So that if you do not contemplate any statutory alteration in the position of the Secretary of State, you at any rate expect that if your proposals were carried out he would feel himself in practice precluded from questioning the discretion of the Indian Government on such points as we have been discussing?—I do not think the conception of the functions of the Secretary of State for India, as modified by the Reform Scheme of 1909, can be more fairly stated than they were stated by Mr. Montagu in the House of Commons in the last Budget Debate; and a short excerpt from that speech I have given in the little memorandum which I have submitted to you (*see* page 666 of Appendix XXXI., para. 6). He said, and I think with perfect fairness and logic, that every step taken in increasing the political machinery in India and the means for bringing Indian influence to bear upon the Government of India, must be accompanied by a reduction of the control exercised from home; but we must always remember that in fundamental questions of principle the will of the Secretary of State must of necessity prevail.

10,006. And that being so, the constitution of the Secretary of State's Council here and of his Finance Committee will remain a matter of great importance?—A matter of great importance.

10,007. You are not satisfied with its constitution as it exists at present?—I would point to a rather curious inversion which seems to have been operating in the constitution of the Secretary of State's Council. As the importance of his giving weight to the opinion of the Government of India in these matters has grown in consequence of the stronger mobilisation of Indian opinion on the Government of India, his means of appreciating the position of the Government of India have declined. There has been a distinct change in the character of the financial advisers whom the Secretary of State has chosen. For many years I understand a representative of the Finance Department, a retired officer, was on the Secretary of State's Council. The records I have been able to study do not go very far back, but they go back to the days of Sir James Westland, and they go back to the days of Mr. J. F. Finlay, both of whom were former officers of the Finance Department. On another occasion there was Mr. Hardie, who was, I understand, a retired officer of the Bank of Bengal, and he sat for some years on the Council; but since the return of Mr. Finlay to India no representative of the Finance Department of the Government of India has sat on the Finance Committee of the Council, nor, I believe, since Mr. Hardie's retirement has there been any representative of the Presidency Banks, and for many years no representative of Indian commerce and industry.

10,008. I think your desire is that there should always be at least one representative of the Finance Department of the Government of India, one from the Presidency Banks, and you say one of commerce and industry as well?—If practicable, yes. I regard as the most important point the representation of the Finance Department of the Government of India, secondly, the Presidency Banks, and thirdly, commerce and industry.

10,009. I want to ask you one or two questions only about a State bank. I think you did suggest in an answer which you gave me earlier in the day that if the financial business now transacted by the Secretary of State were done through the means of a State bank, you think much of the criticism which his operations have excited would have been avoided?—I was speaking at the moment more particularly of the Secretary of State's remittances for his home charges, and I said that if those had been through the ordinary mechanism of a bank, as the remittances which so many other countries are making to London have been done, being less conspicuous and being one of the parts of the

ordinary machinery, very much less criticism would have been levied in the direction of what is called the drain theory.

10,010. You have not yourself formed any very decided opinion on the subject, I gather?—I have not formed any decided opinion, because without a definite scheme before one I think it is impossible to express an opinion.

10,011. You have never tried to work out a scheme yourself?—I have not tried to work out a scheme, but I have tried to consider one or two definite principles which would have to be adopted if ever a State bank were carried into effect.

10,012. Will you tell us what those principles are?—I think that in the first place it would have to be a State bank; I think the idea of a central bank formed either by the unification of the three Presidency Banks or by the absorption of two Presidency Banks by a third Presidency Bank, is absolutely impracticable.

10,013. When you say that it would have to be a State Bank, you do not mean that there would be no private capital?—No, what I mean is that it would have to be a bank with which the Government was definitely and continuously associated. I am perfectly convinced that any scheme put forward by one Presidency Bank for the absorption of the others, with a body of directors elected by the shareholders in either one of the great cities in India, would be rejected by certainly one or other of the partners to the enterprise, and for that reason I regard that idea as absolutely impracticable. If a central institution is to come, it must be a State Bank put forward by the Government of India, and pressed to completion by and on the initiative of the Government of India. That, I think, is absolutely essential.

10,014. I suppose you take it in such a case that the Governor and some of the principal officials of the bank would be nominated by the Government of India?—Undoubtedly, and inasmuch as such a bank would have to be in constant association with the Government of India, and I take it that at least one or other of its high officials would have to be a high official of the Government of India, the headquarters of that bank would have to be certainly at the cold weather headquarters of the Government of India, and that is at Delhi. I say that particularly, because if you are going to have Government control and representation on that bank, it is very desirable that it should be the highest Government official like the Finance Member of the Governor-General's Council; because if you have a subordinate officer he would in emergencies have to refer to a higher officer for instructions, and that might involve very unfortunate delays.

10,015. Whatever the advantages of such a bank, they would not free the Government of India from such a responsibility?—No, but the Government of India is already in very similar ways at the present time exercising responsibility, and exercising it very well. For instance, the Government of India appoints representatives on the Port Trusts of Bombay, Calcutta, and I think of the other towns; it appoints representatives on the Bombay Improvement Trust, and I think on the Calcutta Improvement Trust, which are carrying out the urban improvements in those towns; and my own experience is that the Government representatives on those bodies are of the highest value, that they do work most cordially with all their colleagues, and I have heard it stated that they are regarded as certainly amongst the ablest members, and the most useful members of those mixed bodies; so it is not as if Government were strange to the idea of working in conjunction with semi-independent bodies of this character.

10,016. (*Lord Faber.*) I think you told the Chairman that you were connected with a co-operative bank in India?—The Bombay Central Co-operative Credit Society's Bank.

10,017. Will you please tell me what is the exact procedure with regard to lending money to a cultivator of the soil in India?—If a cultivator of the soil wants money he must be a member of the Co-operative Credit Society. That Co-operative Credit Society applies to the Registrar of Co-operative Credit Societies, who is a Government official, for a loan. If the Registrar is satisfied with the general status and management of the society he sends an officer of his own to make an independent valuation of the assets.

10,018. Do you mean of the assets of the society?—Of the assets of the members of the society, because it is of unlimited liability. The whole of these papers are then sent to our central bank in Bombay with a recommendation from the Registrar that such and such a co-operative credit society has applied for a loan of so much, that the assets of the society as disclosed on the appended sheet are so much, and the Registrar either recommends the loan, or, if he thinks the amount asked for is excessive, supposing it is 10,000 rupees, he says: "I recommend a loan of 7,000 rupees," and then the directors of the bank decide whether or not that loan should be granted.

10,019. Then you make the loan to one of the members of the society?—No, no members of the co-operative credit societies are connected with the bank. The bank is a limited liability company formed in Bombay City, and the co-operative credit society which applies for the loan may be five hundred miles away, right in the southern part of the Presidency. This bank was formed because those early societies found a difficulty in getting capital, and it was specially formed under special terms from the Government to facilitate the supply of capital to those societies.

10,020. May I take it that it is this way: that the bank lends to the co-operative society. What I want to get at is the further step. How does the co-operative society lend the money to the mere native on the soil?—It lends to its members; and it only lends to its members. I rather fancy under the Co-operative Credit Societies' Act they are not allowed to lend outside their own body. It is a little village community. You have the co-operative bank and if a man wants a loan of 50 rupees to buy a bullock he goes to the society and gets it from that society.

10,021. And does the fact of his being a member of that society put him in sufficient credit to take 50 rupees if he has nothing?—If he had not sufficient credit, I suppose he would not get it.

10,022. We have had this matter discussed very much in England during the last year or two, and the difficulty in England is this: If a poor man who has nothing wants to borrow to cultivate his farm, how is a banker to lend the money safely to him and get it back again? That has never been answered at all?—If he were a poor man with nothing, he would not be a member of the society.

10,023. Of course, it has been put forward in England, but I cannot see on what ground, that it is safer to lend to fifty men who have nothing, when they are bound together in a co-operative society, than it is to lend to one who has nothing. From the banker's point of view, I cannot see that you get much forwarder, to put it plainly. To lend to one man who has nothing is an equal danger to lending to fifty who have nothing, is it not?—I think you must take into account the peculiar economic conditions of rural India, particularly the Bombay Presidency, where you have ryotwari tenure, and where practically everybody in the countryside has something. He has his land, and he has his implements and cattle for cultivating that land. The proportion of inhabitants of rural India without any land whatsoever is very small, and there would be the landowners, the ryots holding under the ryotwari tenure, who would form the members of the co-operative credit societies, and the assets would be the land.

10,024. But you were good enough to inform the Chairman that in a bad year the land was worth nothing, and it absolutely grew nothing at all; and, therefore, if you hit on a bad year or two running, I cannot see that that risk would warrant the lending?—I see your point. I did not say that the land was worth nothing; I said that the crop was worth nothing. The land would still have a value over the next year, because the Government assessment is so light that the rental of land is anything from two to five or ten times the assessment; but if you have 50 men, you will find almost invariably in these

co-operative credit societies there are one or two more substantial men who are prepared to accept unlimited liability for the whole community, in order to give it the credit which is necessary for it to work. Would you like a little more information about that?

10,025. I should, if it is not wearying the Commission, because this very thing was discussed in the House of Lords this last year?—A very important point occurred in Ahmednagar about a year ago. Ahmednagar is right in the famine district, and is a poor district, and it was very hard hit by the famine of 1911. When application came from one or two of the Ahmednagar societies for loans, the directors felt in some difficulty. They were anxious to advance money, because we never let what I may call rigidly commercial principles stand in our way, but at the same time where was the security? I know of one or two instances, of one particularly where a substantial shopkeeper worth 2,000*l.* or 3,000*l.* joined the society and accepted unlimited liability, and that gave the society a credit which it would not have had otherwise.

10,026. I consider that a man who will do that is a benefactor to the whole country—a man who will undertake unlimited liability, because he wants his fellow sufferers so to speak, in a sense, to get money. I think that was an act that we should not see readily done in England?—I do not think that is an isolated case. Of course, he has his control over the loans as a member of the society.

10,027. That is very interesting. Now with regard to the railways, private individuals are building what are called feeder lines in India now?—Private companies.

10,028. Do those feeder lines compete at all with the main lines, or do they merely feed them?—They merely feed them. There is only one case, as far as my recollection goes, where a feeder railway has been converted into a link.

10,029. With regard to Indian credit, I confess that I agree entirely with your view of Indian credit, that it appeared to me and many other bankers in England to be excellent on the merits. Many would-be investors come to banks in England to know what they are to invest in, and bankers in very many cases suggest such a thing as an Indian loan, which to-day pays 4 per cent. The answer of the investor 99 times out of 100 is the same: "I should certainly "take it if I was not afraid of the revolutionary "agitation in India." That has stopped the credit in this country to-day. In my particular line of business, of course, I see that very often, almost daily, and that 99 times out of 100 is the answer?—It is our unfortunate circumstance that we suffer from Indian events being seen through a wholly distorted perspective.

10,030. It is so, really?—You have 315,000,000 of people scattered over this enormous country, and now and again an isolated political crime occurs. That comes over the wires as the only item of Indian news, perhaps, for a week, and people forget the 314,999,000 odd people living in a peaceful law-biding country; but for anybody who has known India in the last seventeen years, and has seen the astounding changes brought about by the extension of railways and irrigation, and by the high prices of produce, to doubt the stability of Indian credit for the relatively very small borrowings which it has to make is really absurd.

10,031. Could anything be done to help in that in the way of proper information being given to the English markets? What I would call your attention to is the little weekly bulletin which is issued by the Agent-General for Canada every week which tells you exactly what is going on in Canada as regards trade and as regards loans, and so on and so forth. Could not something be done to put the real position of India before the investor in this country?—It might perhaps be easier if you had Indian representation on the Finance Committee of the Secretary of State's Council, when there would be somebody at hand who could really put these things in the proper perspective. But it is very difficult for me to say anything on a point like that.

10,032. With regard to Government loans to bankers, if Government were in the habit of making those loans year in and year out, would it not create a great deal of uneasiness in trade circles if for some reason or other in recent years the Government had not money available to lend? In a small market like that would not you get the commercial community hung round the neck of the Government, so to speak, and they would not be able to borrow anywhere else?—A good many figures have been put before the Commission with regard to the Government deposits with the Presidency Banks, but I do not know whether the Commission have taken out figures showing the percentage of Government deposits to other deposits with the Presidency Banks. If so, they are rather remarkable, and show really how relatively small a proportion of the working capital of the Presidency Banks are the Government deposits to-day. I had these figures taken out. In the Bank of Bengal, in 1872, the Government deposits were 145 per cent. of the other deposits; in 1912 they were only 11 per cent. In the case of the Bank of Bombay, the same proportionate figures had come down from 237 per cent. to 13 per cent., and in the case of the Bank of Madras from 53 per cent. to 10 per cent.; and in the case of all the banks taken together, from 179 per cent. to 11 per cent. On the figures of 1912, the Government deposits are only 11 per cent. of the other deposits at the banks.

Bank of Bengal.

Year.	(1) Government Deposits.	(2) Other Deposits.	(3) Cash.	Percentages.	
				No. 1 to 2.	No. 1 to 3.
	Lakhs.	Lakhs.	Lakhs.	Per cent.	Per cent.
1872	428	295	491	145	87
1882	245	262	247	93	99
1892	186	548	409	34	45
1902	179	796	404	22	44
1912	195	1,690	733	11	26

Bank of Bombay.

1872	409	172	387	237	105
1882	50	220	147	22	34
1892	91	407	255	22	35
1902	86	537	242	16	35
1912	138	1,065	444	13	31

Bank of Madras.

1882	40	75	61	53	65
1892	57	263	148	21	38
1902	48	304	130	15	36
1912	75	706	231	10	32

Summary.

1872	837	467	878	179	95
1882	335	557	455	60	73
1892	334	1,218	812	27	41
1902	313	1,637	776	18	40
1912	408	3,461	1,408	11	28

Note.—(1) The figures appearing in columns 1, 2, and 3 are weekly averages in the case of the banks of Bengal and Bombay, while those appearing in the same columns under the Bank of Madras represent the balances on 30th June.

(2) In the summary the figures for the year 1872 represent the totals of the banks of Bengal and Bombay only. No balance sheet of the Bank of Madras is available for that year.

10,033. You are talking now, mind you, as I understand, about five millions sterling of loans to the banks—or was it five crores?—Five millions.

10,034. Of course, that would be a biggish addition?—It would, but, on the other hand, I have put that same point to one or two people who would be likely to be borrowers from the banks, and they have not felt that it would embarrass them at all, particularly as they have means of seeing from the weekly returns whether Government is likely to have any money to lend or whether it is not.

10,035. Now, will you give me your opinion once more—I did not quite understand it—on this question of Government drawing on India? The question that was put to you was: Should Government draw for more than they want for the financial year; and your answer, I think, was: No, they should not draw for more than is wanted for their financial budget?—Might I just expand that a little? I say that Government, having made their budget of ways and means from April 1 to March 31, should adhere to that budget, and should not draw over and above it except in very special circumstances, but I think it is possible to conceive circumstances where there would be very large surplus balances in India, and when it was impossible to raise loans in London for a railway programme which was commenced and had to be carried on. In those circumstances I think it would be unreasonable absolutely to confine the Secretary of State to his rigid budget allowance; but his further drawings should take the form of a supplementary budget, which should be submitted to the Legislative Council at some time or other and formally adopted as part of the financial mechanism of the year.

10,036. What I have in mind is this: Suppose an ordinary trader wanted to buy exchange on London, and the Government had finished selling exchange, should you be in favour of the trader being left to look after himself and eventually being obliged to export gold to India?—I should.

10,037. (*Chairman.*) Even though, as the next stage in the proceeding, the same gold had to be re-exported from India back to England?—Yes. It is impossible absolutely to avoid inconvenience in any financial mechanism, and I believe almost every other country in the world which has remittances to make has some inconvenience to suffer. I think the inconvenience arising from that would be less than the inconvenience arising from sweeping the whole surplus revenues to London in anticipation of using them later on for the avoidance of debt.

10,038. (*Lord Faber.*) I have only one more question to ask. You said that you were in favour of the Gold Standard Reserve being kept in India because it would satisfy Indian opinion, and you went on to say that if it was necessary bills would be drawn on London, and they would go by the same ship that could take the gold to London to satisfy those bills?—As far as Port Said, yes.

10,039. The only thing against that really would be, commercially, the freight of the gold out to India and back again?—Yes, but the Gold Standard Reserve has been used once, I think, since 1901, when it was started, and if I read the economic conditions of India aright, although I should like to see the reserve automatically going on, I think the prospects of the reserve being drawn upon from famine apart from disturbance elsewhere are very much more remote than they have been at any time.

10,040. Because of irrigation work and so on?—Because of the extraordinary revolution in the whole economic condition of the people. Irrigation is only one part. The substitution of export crops for food crops is another.

10,041. (*Sir Ernest Cable.*) I have only just one question to put: You gave as a reason why the Gold Standard Reserve should be kept in India that the people were saturated with the belief that under our rule there was a drain of wealth from India to England. I remember that theory very well when it was started some years ago. Do you think it is held so strongly as it used to be?—It has not been quite so vigorously preached since one or two people who were foremost in pushing the theory are now not active in it, but it is very widely diffused, particularly amongst what we call the educated classes and the student classes. I am sorry to say I have not the slightest doubt that there is that feeling. I have come across most distressing evidence in many quarters showing how that belief has gone home and has warped the whole conception of the benefits of British rule in India.

10,042. I put that question to you because I was under the impression that really the belief was dying down with better education and more investigation?—I think you are right so far, that it is perhaps a little less acute than it was, but it exists. I wish I could feel that it did not exist.

10,043. Then you said that the Gold Standard Reserve being held in London has shaken confidence in India. Do you think that the confidence of well-educated commercial people is shaken?—I put it rather differently, I think. I said "the whole course of events with regard to the reserve"; and that included taking a million for railways, and also the formation of the silver branch of the reserve. I was not speaking specifically and solely of keeping the reserve in London.

10,044. (*Mr. Keynes.*) With regard to the State Bank, there are two views which can be taken. One view is that there really would be no great advantages in such an institution, and another view is that there would be great advantages, but that there are practical difficulties. I rather gather from your evidence that you think a State Bank would be a good thing to have if the practical difficulties did not prove insuperable?—Undoubtedly.

10,045. Do you hold that strongly?—Strongly.

10,046. Does it seem to you *primâ facie* that the sort of practical difficulties to which allusion is sometimes made are insuperable or not?—No, they are not insuperable if the principle adopted is a State Bank upon which strong Government control will be exercised. They are insuperable if what is meant is a Central Bank, formed by an amalgamation of the existing Presidency Banks with an elected board of directors sitting at one or other of the Presidency towns.

10,047. So that you think that the proposal deserves more careful and exact examination than it has hitherto received?—I think if any proposal is put forward at the present time which affords any reasonable promise of overcoming the existing difficulties, it will receive to-day the most cordial and appreciative consideration.

10,048. I turn back from that to points upon which it is possible to go into greater detail, because schemes are before us. With regard to holding the Gold Standard Reserve in India rather than in London, you realise, I suppose, that it would mean that telegraphic transfers could not be sold, as they are at present, on the occasion of a crisis?—Yes.

10,049. That is a disadvantage?—You mean if the whole were held in India?

10,050. Yes?—Yes, a disadvantage—well, that is a banker's question, and I could not say; I could not say whether it would be a serious disadvantage or what disadvantage there would be in the delay of three weeks in the arrival of your gold.

10,051. I suppose also if the Government of India received information leading them to think that dangerous times might be impending, they would begin shipping the gold home in advance, would they not? That would be the wise thing to do?—It is rather a hypothetical question upon which it is difficult for me to express an opinion, but the time of the transit of gold is short—it is only three weeks—and there would be the confidence which would come from the knowledge that it was on the water. I should like a banker to say whether it would make a material difference to credit.

10,052. In 1907 the acute phase of the crisis in India lasted very little more than three weeks; it was a short time?—Do you mean in 1907-8?

10,053. Yes?—The crisis never would have been acute if the Government of India and the Secretary

of State had taken immediate and prompt action and said: "You can have gold." I have discussed this over and over again with those who were actively connected with the crisis, and I was in Bombay at the time. They said: "If we had known that we could have got gold, we did not want it." That was certainly the position in 1907. Whether it was quite so strong a position in 1908 is another matter.

10,054. I want to put these two alternatives. If the gold is in London the authorities in India can quietly and confidently sell bills up to a million pounds a week and put these on offer some weeks before they think the offer will be actually acted upon, so as to calm people and make them realise that it is available. If, on the other hand, the gold is in India, when the dangerous times come, the Government must at once ship large sums home, and that to everybody's mind would appear to weaken the position in India, and must excite more remark, and must rather stimulate anxiety than calm it?—Of course, it is a difficult position upon which to express a dogmatic opinion, but you know India is so used to the movement of bullion that I very much doubt if it would. For instance, a million and a half lightweight sovereigns were sent home the other day, and it excited no comment. Assuming that the reserve is brought under control, and that the gold is known to be freely available, I do not imagine that it will make much difference; but I say again that it is a banker's question.

10,055. Of course, this will happen in dangerous times, and what the public would see would be that the Government was suddenly shipping home five million sovereigns as quickly as they could. You do not feel that so far from allaying suspicion that might rather aggravate it?—I do not think so.

10,056. People will say: "If the Government is "shipping all that gold home, what about the con- "vertibility of our coins in India," and so forth—I mean the ignorant people. I should have thought it might excite dangerous remark?—I should not think so.

10,057. I turn from that to the proposal for a gold mint. You give two reasons, the first reason being that bullion coming out in time of famine could be converted into sovereigns?—Yes.

10,058. I suppose gold bullion coming out in those circumstances would be wanted for export?—It is very hard to say. It may be wanted for export or it may be wanted for currency; you may want to turn that bullion into currency.

10,059. That is very unlikely at a time of famine?—Perhaps I do not see your point. I do not quite follow.

10,060. Your argument is that the gold bullion would come out in times of famine?—Yes.

10,061. I am suggesting that that is just the time when currency would not be wanted, and when money would be wanted for export?—In time of famine currency is wanted. As a matter of fact, in time of famine there is considerable demand for currency in order to supply the needs of those on famine relief works.

10,062. But if I remember rightly, that is in the form of rupees and small coin?—It depends upon the amount you want.

10,063. There is no demand for sovereigns at that time?—Amongst the actual cultivators?

10,064. Yes?—No.

10,065. Would not this particular part of your argument be met equally well if the Government published a rate at which they would buy bullion, as they used to?—It might.

10,066. I do not say it would meet the whole of the argument, but it would meet that particular part of it?—It would to a very considerable extent.

10,067. I now turn to the other part of the argument, the more important part. You advocate the minting of gold because you think it would make the sovereign more popular?—It is not my opinion; it is the opinion which was given to me by a very experienced banker. He said that he was convinced that the minting of sovereigns in India would be a powerful factor in maintaining and increasing the circulation of the sovereigns which were actually absorbed at the present time. It would check the tendency for those to go into hoards, or whatever you like to call them, and not to come out for use as ordinary currency media; and his reason was that the sovereigns being minted in London—you are dealing with an illiterate population—the people would doubt, or some would doubt, whether an adequate supply would be forthcoming, and would adhere to those which they had; whereas if they were minted in Bombay, and it was known that an indefinite supply was available in Bombay, there would be less tendency to put these sovereigns into what you may call the inert currency than there is.

10,068. If we assume that that view is correct, the desirability of a mint really turns upon whether it is desirable to encourage gold in this way; I want to ask you a few questions directed towards that issue?—I should say that it was most distinctly desirable to keep in circulation the sovereigns which had actually been absorbed, and not to retain them in the inert currency, which would never come out for any purpose whatever. That argument applies, not to British sovereigns coming into circulation, but to sovereigns actually in the country at the present time.

10,069. I am not clear whether you want sovereigns to be stimulated to the extent of displacing rupees now circulating or only to the extent of forming new additions to the currency?—Only to the extent of forming new additions to the currency.

10,070. You are not afraid that if Government took active steps to popularise gold, it might go a little further than that?—Not so far ahead as we can see.

10,071. You would not wish it to go further than that?—I would not wish it to go further than that.

10,072. So that under the conditions which you are imagining, sovereigns would not form more than a comparatively small percentage of the total circulation, not more than 20 per cent. at the most within the next 10 years?—It would form a small percentage, but it would form a growing percentage.

10,073. One which would be small if one only takes a period of about 10 years ahead?—Yes.

10,074. In those circumstances, if there were to be a crisis, people would try to get rid of the less stable form of currency, namely, rupees, would they not?—The rupees would first come in, undoubtedly.

10,075. So that the coins which would come into the Government treasuries in return for the sterling bills which they were selling would be rupees, not sovereigns?—They would, until you had reached the period, of course, of a more diffused circulation.

10,076. So that within the sort of period that we can contemplate, these sovereigns would not be of any appreciable value as a support to exchange?—It is difficult to go so far as to say they would not be of any appreciable value, and it is equally difficult to say that they would be of considerable value.

10,077. The Government would have to redeem just about as many rupees as they would if this gold had not gone into circulation?—I would hardly like to go so far as that, because the whole of the official evidence which we have before us shows that the sovereign circulates so freely at the present time, certainly in the Bombay Presidency and Sind, that I do not think you are justified in saying that there will be an immediate and absolute embargo upon its advent in time of adverse exchange.

10,078. But you have agreed that the people would cling to their sovereigns, and, therefore, the sovereigns would not come out unless so much currency had come out that there would be absolutely not enough rupees to satisfy it?—I think, if I said that, I put it a little more strongly than I was justified in putting it. There would naturally be a tendency for rupees to come out in preference to sovereigns, but I do not think one would be justified in saying that all rupees would come out and no sovereigns, assuming a 20 per cent. proportion of sovereigns in circulation.

10,079. I do not wish to push the argument so far as that, but the number of sovereigns coming out would be very small?—I would not like to go quite so far as that. The number of sovereigns coming out would be smaller than the rupees, but if you had an

active gold currency you would have a much larger number of sovereigns in your treasuries.

10,080. You would not maintain that if gold formed a fifth part of the circulation, a fifth of the amount returned to the Government would be sovereigns; it would be a much smaller proportion, would it not?—I do not think one is entitled to express any dogmatic view on that.

10,081. In spite of the fact that you have agreed that the sovereigns are what people would cling to in times when suspicion was aroused?—There naturally would be a preference to hold gold over rupees.

10,082. The Chairman suggested to you, and I think you agreed with him, that if all, or nearly all, of the additions to the currency are in the form of sovereigns, that puts an end to the growth of the Gold Standard Reserve?—Assuming that the whole of the reserve is simultaneously held in gold.

10,083. And you advocate that?—Yes.

10,084. So that whilst the liabilities of the Government would be increasing through the general growth of business in India, and the size of her external trade, and so forth, the Government resources would not grow under your proposal?—Are you not leaving out of account the paper currency reserve?

10,085. I will come on to that in a minute. Would you agree that apart from that they would not grow?—Are not you leaving out of account the fact that there would be more sovereigns in circulation, in the treasuries, and in the banks?

10,086. I am going on the hypothesis that all the additions to the currency are in the form of sovereigns. If a large amount are in the form of notes, then I agree that there is an addition to the resources?—I am glad you put that clearly, because I would never suggest that all additions should be sovereigns, to exclude notes.

10,087. So that the amount of sovereigns going into circulation is even smaller than we were supposing in the first part of our argument?—I am a strong advocate of the encouragement of the circulation of notes, because of the gold backing that they would give you, but what I am advocating is that sovereigns shall so far as possible take the place of rupees in the additional metallic circulation.

10,088. But you would still do nothing which would lead to their supplanting notes?—No, most decidedly not.

10,089. Does not the policy seem to you a little risky? We know that Eastern nations have a great natural love of gold. It would be easy to get into people's heads that gold was the right kind of currency to have in great quantities, and once started, might it not go further than you intend, and interfere not only with the growth of the Gold Standard Reserve, but also with the growth of the Paper Currency Reserve?—I do not think that is a reasonable apprehension.

10,090. Your policy is only safe in so far as it is unsuccessful. If the efforts of the Government to popularise gold result in very few sovereigns going into circulation, the difficulties I have been suggesting do not arise, but I am suggesting that if your policy is really successful, if you induce Indians to think that sovereigns are the right thing to have, that must be at the expense either of rupees or of notes?—Yes.

10,091. If it is at the expense of new rupees, it prevents the growth of the Gold Standard Reserve?—Assuming that the whole of the Gold Standard Reserve is held in gold, yes.

10,092. If it is at the expense of old rupees, it means that Government must melt down rupees at a serious loss?—I cannot conceive that it would be at the expense of old rupees.

10,093. I am just taking all the alternatives?—If so, they will be coming back into the treasuries.

10,094. If it is at the expense of the notes, that is a thing which you deprecate, and it would reduce stability through the corresponding diminution in the Paper Currency Reserve?—It would be a thing that I should deprecate, certainly.

10,095. So that the introduction of the sovereign would only be safe if it was on a very small scale?—I do not think you can say that when you have bought seven millions of silver last year, and three-and-a-half this year, and you have bought over fifty millions sterling worth of silver since the mints recommenced coining.

10,096. But, of course, it is out of the profits of that that the Gold Standard Reserve has entirely arisen. If you had had gold instead of that, you would have had no Gold Standard Reserve at all?—No, but you would have that amount of gold in circulation.

10,097. However, I may conclude that you would not wish to encourage gold if it had the effect of driving rupees now in circulation out of circulation, or if it had the effect of diminishing the note issue?—No.

10,098. And you do not feel that the natural love of Indians for gold is so great that your policy might be more successful than you imagine?—No, not so far as I can see.

10,099. You are in the position of only advocating an increase of gold in the currency on a small scale, and also allowing that as long as it is on a small scale, it does not really help the exchanges?—I do not advocate the increase of gold in circulation on that ground only. I advocate it because it is the only means of getting rid of the extraordinary artificialities of the present situation. I mean to say it is because the greater part of the increase of your currency is in rupees, that you have to keep the Paper Currency Reserve in London in gold, and the Gold Standard Reserve in India in rupees, and that you are in a position of constantly inviting silver speculators to corner the market against you, and are also in the position of always paying an outside price for the masses of silver which you have to buy. All those are very important factors in the situation, I think.

10,100. But the artificiality of the system arises out of the large circulation of rupees, and you cannot get rid of that unless you melt down rupees, which I do not understand you to advocate?—Does not the artificiality also arise from the fact that your additions to your currency are mainly in rupees?

10,101. You are alluding to something which is not usually regarded as an artificial part of the currency. I thought you meant what people usually call its managed side?—I do not quite follow you.

10,102. People usually call the Indian system artificial, because it is necessary to have the Gold Standard Reserve, and to sell sterling bills for the support of exchange, and so forth. All that apparatus for maintaining exchange is usually referred to as the artificial part, and I thought you intended that; but you do not intend that?—No, I am referring to the artificial part chiefly in the additions to your currency—the means you have to take for adding to your currency.

10,103. That is what it comes down to then, that these silver purchases would be avoided if you had a gold standard?—If you had a gold circulation.

10,104. I mean if you take it simply upon that basis, then I should have thought that the profits on silver coinage——?—I do not put it on that basis alone. I say those are factors which must be taken into consideration.

10,105. But if the other factors are weak, you are taking it alone?—No, I am not. You take one factor here and one factor there, and say that I put it on that, but I do not; I take it as all part of the general system. If you have an active gold circulation, the additions to your currency are made in a perfectly automatic form, and that is, gold that comes out in settlement of balance of trade automatically passes into circulation, instead of being shipped to America to buy silver, which involves you in a lot of extremely artificial expedients; and also it is a gradually increasing second reserve to your gold standard.

10,106. I understand that you do not care to repose your case upon any one argument particularly?—No.

10,107. (*Mr. Gillan.*) You made some suggestions in the course of your examination by the Chairman, I think, about limiting the Councils by the amount of the Budget?—Yes.

10,108. You said you would not make that a hard, and fast limit, but you would allow it to be revised; but you would subject the revision, as I understand, to some particular mechanism?—What I said was that assuming there was a very large surplus revenue in India for which there was no legitimate outlet in India, and assuming that the Secretary of State was unable to borrow for his capital programme, and assuming that if those funds were not applied capital works would come to a standstill, then I think it would be reasonable to place some portion of this surplus at the disposal of the Secretary of State for his capital works, but I say that should be done by a supplementary budget which should, if possible at the time, but, if not, subsequently, be passed through the Legislative Council.

10,109. Then do I understand that you think that that particular change in the budget proposals requires a different sanction, so to speak, from any other change? You know, of course, that as things go during the year various figures in the budget have to be altered to suit the changed circumstances?—I should say so, because my own suggestion is that the surplus revenue of India over and above the budget requirements should not be devoted to capital expenditure or to the avoidance of debt on productive works, and therefore if we make a departure from that principle it must be made in the form of a supplementary estimate to the budget, and it should not be, as it is now, that all these surplus revenues should be withdrawn to England in order to avoid additions to the productive debt, and taken entirely out of the control of the Government of India and the Legislative Council in the budget debates.

10,110. And that really is a wider proposal which really involves the whole disposal of any additional surplus which accrues during the year?—Yes.

10,111. As regards this particular matter of Councils, I think it would meet your view if you said that the matter had to be determined or re-adjusted in the course of the year with a due regard to the requirements of the Government of India as a whole, whether at home or in India?—Yes.

10,112. And that it is the requirements in India which ought not to be overlooked in making that adjustment?—I say it is the requirements of India, beyond the Secretary of State's budget demands, which must have the first consideration.

10,113. With regard to the Gold Standard Reserve, you made a recommendation, I think, that the whole of it should be held in gold?—That, I think, is the ideal.

10,114. You would, however, recognise, I suppose, that the amount to be held in gold must take some sort of cognizance of the character of any securities which may be held?—Certainly.

10,115. That is to say, if you have short-dated securities absolutely certain of their realisation, it might be unnecessary to hold the total in gold?—That is so of course, but when you say "absolutely certain of realisation," I think that is open to the qualification which the ex-Governor of the Bank of England gave to the Commission, and that is that even short-term securities are not absolutely certain of realisation in time of really acute crisis.

10,116. Quite so, but I understand that you do not hold the view that the whole amount should be held in gold without any consideration of the other elements which may possibly enter into the calculation?—Certainly not.

10,117. Then with regard to the gold mint, the first point, as Mr. Keynes put to you, which has been suggested in your memorandum was with regard to the amount of gold which may come out in time of famine or scarcity. He suggested to you that at that time the demand is not for currency, and you replied that a great deal of currency is required for the financing of famine operations, and so on on; but the net result is shown, is it not, in the fact that at a time of that kind you generally have a return from circulation instead of an absorption?—Do you mean assuming famine brings about an adverse balance of trade which has to be liquidated by sterling bills; or are you speaking generally?

10,118. No, I do not think you need make that assumption. Supposing you have adverse times, the inference is, is it not, that rupees at a time of that kind come back to the Government instead of being drawn out from the Government?—You must know, and of course, if you say so, it is so.

10,119. What does more appeal to me in this matter of a gold mint is the second point which you mentioned to the Chairman. I want to be clear about it and to see if I quite understand that point. I think what you had in mind was that if you take the contrary set of circumstances, that is, in good times, then undoubtedly you have a big demand for currency, and you would have large imports then being made of gold in order to secure currency with that object, if you cannot get a sufficiency of Council Bills. At present the import of gold for that purpose is limited to sovereigns, and what you would prefer would be to enlarge the opportunities of India, so that it might get sovereigns or gold, as you said, from South Africa or any other place as might happen at the time to be convenient?—That is so.

10,120. That is your proposition?—Yes.

10,121. Now with regard to this question of the gold currency. I notice that you have referred to that point in your memorandum only incidentally?—Yes.

10,122. You refer to it as a point in favour of a gold mint: so that you have not had an opportunity of setting out your reasons for inclining to the gold currency at length?—No.

10,123. In replying to the Chairman, I think you put your reasons under three heads; they were first that a gold currency would reduce the liability of the Government; secondly, that it would do away with the artificiality of our present system and substitute something more automatic, and lastly that it would be a secondary buttress to exchange. Is that your position?—Yes.

10,124. Do you hold that exchange can be secured by means of reserves?—That is a very difficult question to answer, because I do not think we have enough data to go upon. I do not think we know yet what would be the demand made on those reserves. It is quite true, that so far as we have gone, those reserves have met the demand which was made upon them, but the conditions which obtained then were rather abnormal, and I think they have been brought out very strongly in the evidence of Mr. Cole, where he says that if the storm centre had been in London the securities which you held in your reserves might have been unsaleable, and then the question of whether you would have weathered that storm is another matter.

10,125. I quite recognise that that is relevant to the amount which should be held in the reserve, but what I mean is this: As long as you have any doubt about the sufficiency of your reserve you would rather go on building up your reserve than increasing your gold in circulation?—I would like the two processes to go on as far as possible simultaneously. I think I said in reply to Mr. Keynes that if the increase of the metallic circulation were in gold it would sweep away a lot of artificial expedients which you have to adopt, but I do not think we can reasonably look forward to the whole of that increase going in gold after the great absorption of rupees that has been going on, and consequently there would in all probability be some further coinage of rupees and some further additions to the Gold Standard Reserve. But so far as possible I should like to see the silver additions to the token coinage, which have been so strongly criticised by many witnesses before this Commission, kept down by the automatic passing of the gold which comes into circulation in discharge of the balance of trade instead of being converted into rupees.

10,126. (*Chairman.*) May I interject a question upon that point? If the gold went in as you have suggested, what would happen? Would not a great portion of it, at any rate, be tendered at the treasuries for rupees?—A certain amount might, but I think the official evidence which is before the Government of India goes to show that it would actually become a circulating medium in itself.

10,127. (*Mr. Gillan.*) Then you said that the increase in the gold circulation would reduce the liability of the Government: Is that true of at any rate the earlier stages of the process; is it true at the present time?—It is very difficult to say. It might be argued that inasmuch as the gold circulation would form so small a part of the total metallic circulation, it would not come out, but I do not think anybody is entitled dogmatically to say that it would not come out, particularly when you have the conclusive evidence of the Accountant-General of Bombay before you, that gold passes freely from hand to hand amongst the ryots in actual circulation. I had exactly the same evidence, curiously enough, from the Revenue Commissioner in Hyderabad, which is one of the most backward parts of India. He told me that gold was passing from hand to hand amongst the ryots in payment for their cotton, and when that is actually going on, I very much doubt whether you are entitled absolutely to say that none of that gold will come out when currency is flowing back to the treasuries.

10,128. I do not know that anyone says that none of it will come out. It is very much the point that Mr. Keynes put to you. The assumption is that when there are adverse times and the sovereign is at a premium you have two elements in your currency, one of which is gold, and it may be that at that time only a small proportion of that will come back, and the form in which the currency will chiefly return will be in rupees?—I say that is a question upon which I would not express a dogmatic opinion.

10,129. (*Chairman.*) Would it be too much to say that in such circumstances any man who had a debt of 5*l.* to discharge and who had 5*l.* in gold and 5*l.* in silver would be likely to pay his debt in silver rather than in gold?—Remembering that metallic money is the only money which the Indian possesses, and that he would have to keep a certain part by him to discharge his daily obligations, I would not like to say that the whole 5*l.* would come back in silver and leave him with five sovereigns, some of which, at any rate, he would have to change before he could carry on his daily economy.

10,130. (*Mr. Gillan.*) But suppose you go to the next stage and assume a collection of this amount in some centres with the local bunnias or somebody or another; have they opportunities of passing on the less valuable currency and retaining the more valuable?—You would know better than I; you have had more experience.

10,131. Suppose we assume that you have reached the final stage to which I think you look forward as a sort of goal of our currency system; that is to say, a system in which the currency consists very largely, or to a predominating extent, of gold. What will be the position then? On what will you rely for the maintenance of exchange in adverse seasons?—You will still have your Gold Standard Reserve as it stands to-day, plus such accretions to it as may have taken place. You would still have, I imagine, your Paper Currency Reserve, and I should conclude—as I say, I am not a banker, and I speak on this question with great reluctance—that you would have a large amount of gold in your treasuries and in your banks.

10,132. Are you relying upon what banks have?—You go much further when you say "am I relying," because I say that is one of those questions upon which my opinions are valueless. It seems to me to be a banker's question.

10,133. But at the same time you are looking forward to this increase in the gold circulation, because, as you say, it will be a secondary buttress to exchange?—Yes.

10,134. You are therefore relying in some form or another upon that currency?—Yes.

10,135. I had assumed that you had reached the stage which you wanted to reach, and that you had got a full-blown gold currency in the country?—And a subsidiary token currency?

10,136. And a subsidiary token currency; and therefore I presumed that you could rely upon being able to get that gold out of some source apart from the Government?—In time of adverse exchange?

10,137. In time of adverse exchange?—But there would be gold available. I should think that must be the case.

10,138. With whom—with the banks?—With the banks, and in your Government treasuries.

10,139. And partly rupees?—And partly rupees.

10,140. In the meantime the Government reserves in gold are smaller than they would otherwise have been?—Yes.

10,141. That is the point to which I have been working up. I put it to you that the final result is merely a dissipation of your reserve; instead of having it in one place you have it in a great many?—That is so, but what are you aiming at ultimately in the currency policy? The currency policy which you laid down was a gold standard supported by a gold currency. In every official declaration of currency policy precisely the same goal has been held out to the people of India, a gold standard supported by a gold currency. In the latest report of the Legislative Council in the Budget debate, Indian speaker after Indian speaker got up and said: "I press the Govern-"ment to go on to the point that they said they were "going to, a gold standard supported by a gold "currency." If you are not going to move to that goal now, what are you actually aiming at?

10,142. We have to consider the arguments for and against this particular thesis, and the point upon which I wish to get your opinion is this: Do you think that the country will be in a stronger position to support exchange if you have gold partly with the Government, partly in the banks, and partly in the pockets of the people, than if you rely upon a central reserve?—And if you have in the meantime largely reduced your token currency?

10,143. That is assumed?—I think it would be.

10,144. (*Chairman.*) If you will pardon my interrupting, you are assuming that there is a large reduction in the token currency?—I am assuming that the token currency is made subsidiary, and that it is no more than is necessary to discharge those obligations for which the sovereign is too large a unit.

10,145. I understood you to say, I think, to Mr. Keynes, that you did not look forward to the reduction of the token currency, but merely to stop its increase?—It is undoubted that there is a steady wastage of the token currency, and if you stop its increase it must gradually be reduced.

10,146. (*Mr. Keynes.*) May I ask one question upon this. I suppose the first effect if you were to popularise gold would be that gold would gradually dribble out of the paper currency reserve and be replaced by rupees?—You mean that the gold in the paper currency reserve would be reduced?

10,147. Yes?—That is, that there would be more going out of the paper currency reserve than is coming in?

10,148. Yes?—I think that is a proposition upon which I would not like to express a definite opinion, because, assuming a favourable balance of trade is continued, there would be a steady addition of gold in the Paper Currency, would there not?

10,149. That might or might not be, according to the rate at which currency is increasing. In some years it does not increase at all; but that might happen?—That might happen.

10,150. (*Mr. Gillan.*) In reply to the last question, I put to you, did you say that in the position which I put to you exchanges would be better secured than by any system of a central reserve?—With a gold circulation and a subsidiary token coinage, yes.

10,151. Do you think that the system of a Government reserve such as we have in India really differs in essentials from the system which is possessed by any other civilised country? You talk of the Indian system as being managed. You have in view something which is more automatic. Is it the case that other currency systems are automatic as regards this matter of the support of exchange?—I am not a currency expert, but I think, as I said in reply to the Chairman, that a good deal of the criticism of the managed system has arisen from the fact that the

Government of India, in the public eye by advertisement and announcement, manages the foreign exchange, and to that extent a certain amount of prejudice against what is called a managed system has been rather unjustly created; but at the same time, the methods which have to be adopted to control the currency seem to me under present circumstances to involve a large and continuous amount of management which affects the sales of Councils, which affects the purchase of silver, which affects the movement of bullion in so many respects that the element of management must be conspicuous until such times as additions to the currency are in the medium in which the balance of trade is liquidated.

10,152. I appreciate what you say about management, but as a matter of fact do you get away from this element of management in any other system of currency?—I could not say.

10,153. (*Lord Kilbracken.*) I do not know whether you have given us your views clearly about a note circulation as compared with gold. You spoke, I think, of a gold circulation as a sort of ideal to be aimed at?—Gold circulation so far as the metallic portion of the currency is concerned.

10,154. That is exactly what I wanted to understand; you do not ignore notes?—Certainly not.

10,155. That is important?—That is a most important factor.

The witness withdrew.

TWENTY-FOURTH DAY.

At the India Office, Whitehall, S.W.

Friday, 31st October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. F. C. HARRISON, C.S.I., called and examined.

10,156. (*Chairman.*) You are retired from the Indian Civil Service?—Yes.

10,157. Will you tell the Commission briefly what experience of Indian finance you have had in that capacity?—I entered the Financial Department in 1889, and I believe I have had rather an exceptional experience, having served for a long time in every part of India. I was a couple of years in Calcutta, or near Calcutta, to start with; I was again there for four or five years, and I was again there for the last two years of my service. I was nearly four years in Madras, nearly four years in Allahabad, and nearly four years in Bombay, so that in one way and another as an Accountant-General I have had experience of all the principal money markets in India, and have had to look after the provision of the money there.

10,158. I think it would be convenient to the Commission, and probably to yourself, if I invited you to make a general statement on the subjects upon which you tender evidence, and then we could ask any questions as they arose on that, or at the conclusion of your statement?—As regards our balances and our budgetting in India, owing to our being subject to the changes of crops and the vicissitudes of weather, we always are exceedingly cautious in our budgets, so that the result is that in a normal year our receipts are generally considerably in advance of the figures at which we estimate them, that being partly a hedge against the weather, and partly, I think, it has an older origin, certainly in the old days. The Financial Department in India, the Finance Minister, is always in rather a weak position as regards the rest of his council. I believe it is the case in most countries. Other departments want to spend, and the man who holds the purse strings, and is responsible, wants to sit tight. In India the Finance Minister has always been in a position rather of weakness, and as the Council grows his position becomes weaker still, so the habit in India has, if I may say so, been, I think, to budget more cautiously than would ordinarily be wise. Showing low figures is practically buttoning up your purse strings. One department, either the railway or somebody else, wants money, and you say, "I "am very sorry, I have not got it. Look at my "estimates; it is not there"; and this was the method largely employed up to the time of Sir David Barbour. There has been pressure put upon us since to make our estimates more nearly in accordance with the facts, and I think Mr. Gillan probably will tell you that that is so. I can give a simple instance. Revenue in all the great branches of revenue is a progression: instead of taking the progression we nearly always take a figure based on the actuals of the current year. Generally speaking, the coming year's revenue will be a little greater. I do not think you can very well avoid that until the position of the Finance Minister is rather stronger. I think, human nature being what it is, the man in charge will always under-estimate, and the result is that you have greater surpluses than the public expect. As regards the time a few years ago when we had very large balances, that sort of thing must occasionally occur. The windfall from opium was considerable and we are all liable to err occasionally. A railway may estimate for certain expenditure, and is very reluctant to relinquish its grant. If the Public Works Department decline to admit its inability to spend money by March 1, the money is left there. Then that money is withdrawn to this country, and possibly the expenditure is not made immediately, and the result is an addition to the large amounts held in London. Our great difficulty, I think, in India, in budgetting, has been with the Public Works Department, because our system of lapse of grants is such that no spending department will voluntarily tell the Comptroller-General, "I am not going to spend so much," and there is always an unnecessary congestion of funds.

10,159. In that connection may I ask you what happens if a grant is declared lapsed? Suppose a railway company, having estimated to spend 200,000*l.* in the current year, were to report that owing to difficulties with contractors or delay in the preparation

of plans they found they would only spend 100,000*l.*, what happens to the other 100,000*l.*?—Any money lapsing in the year we can re-appropriate to other objects. We cannot do that until the Department responsible says that it is going to relinquish it.

10,160. But what is the motive which causes them to withhold the information from the financial authorities? Is it the fear that the money will not be voted in a subsequent year?—Partly that, but I think really they have a sort of idea that they may be able to spend some of it. They do not like parting with the right to spend it.

(*Mr. Gillan.*) May I ask one question?

(*Chairman.*) If you please.

10,161. (*Mr. Gillan.*) I think in what you have said just now you were referring to the departmental estimates?—Yes.

10,162. It is the case, is it not, that the estimates are subjected to a check from the other side by the Comptroller-General?—Yes.

10,163. Which is with reference purely to the progress of actuals?—Yes, largely, of course, with ways and means, which is a separate system. I was rather referring to our budget estimates. Of course, we have to prepare ways and means estimates to see how much money there is to meet our liabilities.

10,164. And it does happen that on that Comptroller-General's check it is shown that the departmental estimates are in excess; that is to say, they estimate that they will spend more than they possibly can spend, and corrections will be made upon that basis?—We do make that correction, but it is a very unpleasant correction for the Comptroller-General to make, because it is entirely on his own responsibility, and if anything goes wrong they say, "We never told you that we could not spend that money."

10,165. (*Lord Faber.*) Cannot you get rid of the railway grant out of the Budget balance altogether? Can you not pay that over to the railways, or those representing the railways, instead of carrying forward a lapsed grant. Is there any reason why the grant should lapse altogether? Could it not be carried on into the railway for the next year and kept alive for the railway?—I think that is a very difficult thing to do, because the system of all budgetting is, is it not, that you take a period which is nearly always in the world 12 months, and for that 12 months you estimate what you are going to spend. If you allow a sort of overflow it leads rather, I think, to loose budgetting.

10,166. But it would be earmarked for the railways, would it not? It would be earmarked this year, and if the railway did not spend it this year surely the railway ought to be allowed to spend it next year. It ought to be earmarked and got out of the balances of the Budget?—But the theory is, of course, that the railways ought to know their own business, and they budget for their 12 months, and when they see that they cannot spend it in the 12 months, they have only to ask for it for the next 12 months, and as long as they ask for it in time it is in the Budget estimates for the next year.

10,167. This way of doing it I should have thought makes people wonder why there is such a big balance over in the Budget?—I quite agree with your suggestion, if it were feasible.

10,168. (*Chairman.*) As a matter of fact, you do habitually carry the sum forward in your balance, do you not?—No, I think under our system the grants lapse, and the extent to which the railways or anybody else can get money in the next year is the extent to which they estimate for the expenditure in their estimates for the next year. The guillotine drops, so to speak.

10,169. As a general rule, at any rate in these recent years, when there has been lapsed expenditure you either have not had knowledge of the lapse in time or for other reasons you have not reappropriated the money for some other purpose, but it has fallen into the balance?—Yes.

10,170. And therefore, in considering what you may spend the next year, you have taken account of the swollen state of the balance?—Yes, you have.

10,171. I just want to follow this a step further. I can quite understand from home experience the importance of maintaining the position that the current services of the year are to be paid for from the current revenue of the year, and for such current services the money is not to be held over from one year to another, but these railway grants are really capital expenditure?—Yes, I should think they are largely—mainly.

10,172. They are not recurrent in the sense that a grant for education is recurrent?—No.

10,173. Do you think that in the case of non-recurrent capital expenditure it is necessary to apply the same rule which you apply to current expenditure out of revenue?—No; I think it is essential for a railway to have a programme, but I should have thought you could have got at what you want more easily by trying to take railway capital expenditure out of the Budget altogether—out of the official Budget.

10,174. (*Sir Ernest Cable.*) May I ask whether the present system does not lead to reckless and wasteful expenditure on the part of railways towards the end of the period? You say the grant would lapse unless it was spent by a particular date. Does not that tend to make the railways recklessly spend more money than would otherwise be the case?—I take it that they have budgetted for the expenditure which they want to make. Possibly they might administer the expenditure badly, that is to say, entrust it to the wrong people, or make their contracts a little too hurriedly, but the money they want and the money they spend is for the objects for which they want it. The railways are, however, well administered. With the ordinary public expenditure of government, the spending departments, I think there is a real tendency to waste money, because they say: "We have got it this year, and heavens knows if we shall get it next."

10,175. But it is with other departments?—Yes, with other departments I should say it is.

10,176. (*Chairman.*) For the reasons which you have explained to us, the Budget balances have been unusually and abnormally high in recent years?—Yes. I think the tendency is to go on getting them closer and closer to our receipts.

10,177. You would desire, of course, that having regard to the circumstances of India, budgetting should be framed on the cautious side?—I think it must be so as long as we are so dependent upon the weather, and that will continue.

10,178. Possibly there has been a little excess of caution in recent years?—I, personally, do not think it an excess of caution, because I really think, as I attempted to foreshadow, that as long as the position of the Financial Department is weak I am afraid I would prefer always to go on keeping the money up my sleeve.

10,179. So that if you were the responsible minister this policy would really be deliberately adopted by you?—I think I should adopt it.

10,180. Let us then pass from the general subject of the balances to the question of the Treasury balances?—There, as I think evidence has been given to you before. We are in this position: The Government of India is very much in the same position *vis-à-vis* the Secretary of State as the Imperial and Provincial Governments are in India. There is always a contest of opinion in India as to whether the funds belong to the Provincial Government, and the Imperial Government should only have what is sufficient for Imperial budgets, that is to say, for that of the War Department and other Imperial departments. Similarly the same question arises *vis-à-vis* of the Imperial Government of India and the Secretary of State. The question is whether the balances belong to India and the surplusage should go home for meeting the liabilities of the Home Government, or whether you regard it rather the other way; viz., the liabilities in London are first considered, and India retains the residue. Under present conditions it is the Comptroller-General's business to run the treasuries of India, and in regard to any sums which he does not require for the public expenditure he informs the Government, and

they inform the Secretary of State of the amounts at his disposal for drawing. In other words, the funds which India does not immediately need are at the disposal of the Secretary of State for drawing. I do not know that I wish to criticise that. Obviously there is the other view, that the funds are Indian funds—Indian balances—and what should go to the Secretary of State are the sums he requires. I mean to say there is a difference in the attitude from which you regard the position.

10,181. In the way in which you put it to us there is almost a suggestion that the interests of the Secretary of State in London are different from the interests of the Government of India, indeed almost as if he were using the moneys for other than Indian purposes. You do not mean that?—No, I am not, of course, suggesting that for a moment. I merely mean that the difference is in saying: "Shall I give you "only what you want, or shall I only keep what I want "and give you the rest"?

10,182. Translated into actual terms does it not come to this: Shall we spend the money on improvement in education and sanitation, or whatever it may be, or shall we use it for development works?—No, I do not quite mean that. I am now speaking of cash balances, and the question is whether the till money which the Comptroller-General does not require for the moment to run my treasuries in India stays with him, or whether he only keeps what he wants and the Secretary of State gets the rest, or *vice versâ*. That is the only point I was making about that. Then we come to the question of our Treasury balances themselves—their amount. I believe that in India we run our treasuries with great economy. There is an infinite amount of brains and work and labour devoted to keep as little cash as we can. I think you have had quoted to you figures by Sir James Westland, which are of very ancient date, naming a certain sum which he considered sufficient. On a point of that kind Sir James Westland's authority, I think, would never be questioned by anybody who knew him; he was a past master in calculations of that kind; but times have changed since then, and probably if you accepted those figures you would have to add 25 or 30 per cent. to the figures which he gave, I think you have had figures before you; I think the Assistant Secretary to the Government of India in the Finance Department gave them.* His evidence was, if I may say so, extraordinarily good. He is a very capable man, he knows the subject extremely well, and he gave an extremely good exposition of it.

10,183. The general view which your experience leads you to hold is, as you say, that the treasuries are worked with the minimum balances which are compatible with the proper discharge of their functions?—I think it was my view generally expressed to the Finance Minister at the time, that they are worked a little too fine. That raises a rather difficult question—I do not know whether the Commission wish to go into it—as to the way in which we use our currency chests. We use our currency chests to economise our Treasury balances to an enormous extent, and that opens up the question of our currency policy. If we did not do that we should have to keep higher Treasury balances than we do. Then the question of Treasury balances leads into the question of loaning them, and so on. I think the Commission know very well that our present system in India was due to the failure of the Bank of Bombay in 1866 I happen to have had considerable knowledge of that, because my father held the same appointment as I did, and he was the person who inquired into that failure, so I have been accustomed to a great deal of this from my boyhood. The opinion was then formed, as I think you all know, rightly or wrongly, that it was unsafe for us to leave the ordinary cash balances of India with the Presidency banks, and so we withdrew them to our reserve treasuries, a system which you probably know is employed largely in America; America does the same thing very largely. We do not allow the Presidency banks the use of our Government balances beyond giving them a rather generous figure over what we are bound to give them under our agreements. I forget what it is that we give you, Sir James Begbie?

10,184. (*Sir James Begbie.*) 20 lakhs?—And the Bank of Bengal amount is how much?

10,185. Thirty-five lakhs?—I think as a matter of fact I usually left with you something more like 50 lakhs.

10,186. Yes?—And with the Bank of Bengal, I suppose, 80 lakhs; and similarly with the Bank of Madras. Apart from that, we lock our balances up. Now you get this curious position: The Secretary of State draws here what the Comptroller-General did not require; then those sums, being in excess of his immediate requirements, are lent to the market here and to the exchange banks. So you get this paradox that, although the exchange banks look to the Presidency banks in India very much as the banks in London look to the Bank of England as their ultimate safety in times of crisis, yet the banks to which they look in India have practically very little power to get our balances, whereas exchange banks get them in London. That may be an unavoidable anomaly, but I think it is a bad one.

10,187. (*Chairman.*) Would you yourself favour a proposal to make loans from those balances to the Presidency banks?—Not ordinarily, I think, either from the Treasury or from the currency. The cash balances of India are intended to meet its liabilities, and directly you bring in the question of lending those cash balances, you may be diverted from the correct attitude of regulating your cash balances according to your own needs. But I do think that our tendency should be to leave more of our balances with our bankers, which you say comes to nearly the same thing. I do think as time goes on we may go on leaving larger amounts with our bankers in India.

10,188. I understand that what you now leave with them is left free of interest?—Yes.

10,189. Is it your suggestion that that sum of money which they enjoy free should be simply increased?—Yes, but then it would be connected with further ideas, which I want to suggest to the Commission. I would prefer to see a reversion to the old days of the three Presidency banks, of their reverting somewhat more to Government management. In the old days the Comptroller General—I think my father was the last—was the official president of the Bank of Bengal. I would prefer to see either the Government holding the shares, or a system by which the Government have directors on the board, or a system by which you credit to the Government any dividend of the Presidency bank over a certain figure. At present, I think the Presidency banks pay about 4½ per cent. on the price which they are quoted at. The actual dividend is 14 per cent. or 12 per cent. or something like that. If you allowed the present holder a return of about 4½ per cent. on his money, say, 14 per cent. I think in the case of the Bank of Bengal, the dividends over that, or three-quarters of the dividends over that, or something of that kind might go to the Government. Under such a system I would leave more of our balances (and ultimately the whole) with the Presidency banks.

10,190. What you look forward to then would be either the acquisition by the Government of the three banks, or a partnership of the Government in the three banks?—Yes. A partnership is what I would prefer, or it may be a matter of contractual agreement, I take it. I would give them our balances and ultimately the management of our paper currency, and in return exact certain representation on the board and a share of their profits. There are many agreements which might be made.

10,191. Of course, there is a very great difference in regard to the constitution of the banks and the influence which Government exercises on them, but do you see any great difference from the point of view of the use of the money between your proposal and the suggestion which has been made, that these balances, in so far as they were not needed, might be temporarily

* *See* the evidence of Mr. Bhupendra Nath Mitra, C.I.E., Cd. 7069, page 194, &c.

lent to the banks?—Yes, because I think it has an element of danger, and I am suggesting that the element of danger is averted by the Government officials, the Comptroller-General, or possibly the Financial Secretary having a large voice in the management of the banks. I might say also—perhaps Mr. Gladstone might not agree with me—that in business circles in India partners move, as a rule, very quickly. We Government officials go out there for many years, but in a successful firm when a man gets to the top he stays perhaps a few years and then goes to England, and so the result is that we have not got the same personnel to choose from that the Bank of England has got in this country. I do not think that the heads of the firms will spare their time seriously to work on the Presidency banks. One of them is generally the President, but they will not give the time, I take it, which the Bank of England directors give the Bank of England business.

10,192. Now, leaving the question of such a reconstitution of the banking system for the moment, what do you wish to say at this point about the crisis of 1907?—That would rather come into the question of our currency arrangements. If I might, I would rather go on with the question of the balances.

10,193. Please make your statement in your own way?—Another reason for which I advocate very strongly some system by which we can give these balances to India is this: In the first place, I think they are primarily due to India; they are money which belongs to India, and I think primarily they should be used for relieving the Indian money market. Secondly, I dislike intensely the system by which we get any avoidable accumulation of these moneys in London. You get a very undesirable conflict of interest. I think it is very wrong that the balances of India should be administered in London at the India Office by gentlemen who are bankers. It is a wrong system, because their public interests and their interests as bankers must occasionally be in conflict. It is also bad for the City—and I believe that is the best opinion in the City—that there should be another King of Brentford who should lend money in the London money market, I will not say against the Bank of England, but not under its control, whilst the ultimate liability falls on the Bank of England. I think it is very undesirable. I should like eventually to clear the cash balances of the Government of India out of London, except so far as they are necessary for meeting their liabilities when they accrue.

10,194. You would, I suppose, think it right for the Secretary of State, foreseeing heavy charges like the usual annual expenditure, and perhaps for railway development, to make sure of getting his money over when he is in a position to do so, and not to run any risk by postponing it to a time when it might be difficult to make the transfer?—I have often thought of that, but I do not think that there is really a great deal in it. The amount of India's liability to England, that is to say, the Government liability, is very small in comparison with what trade owes India, and, therefore, if India, on Government account, owes England little, and trade owes India much, broadly speaking, there is not much danger, I think, of the Secretary of State being unable to draw his requirements. I quite agree that you should not be caught short; but the danger is not very great. I think you could hold a great deal less in this country than you do hold.

10,195. Let me ask one other question to elucidate your view on this point. Of course the London money market is a very big one?—Yes.

10,196. It has been represented that even in so big a market there is a little difficulty in loaning out satisfactorily such very large sums as were accumulated here recently?—Yes.

10,197. Suppose those sums had been retained in India, do you think that the Indian money market is of a size to find profitable employment for them?—No, in that exceptional case, I think, probably not I should think not. I am rather speaking, I was going to say, of counsels of perfection than of what we can really do. I should think for some time to come we shall have to employ Indian moneys in London, but I would rather not see them lent on the market; I would rather that we bought floaters, or something of that kind, or left it with the Bank of England, or asked the Bank of England to lend it.

10,198. That is rather a different point?—Yes, that is a different point.

10,199. For the moment I was merely trying to get your opinion as to whether or not the Indian money market would be able to find profitable employment for those moneys?—I agree; I do not think at present it would be safe, and the paradoxical position arises from my point of view that I would rather we left the largest balances with the Presidency banks when the need for it was less, that is to say, when they bore such a small proportion to the total banking business of India that it really did not much matter to them whether they had it or not.

10,200. The safety of the operation is very much dependent upon the proportion which the Government loans bear to the size of the money market?—Yes. There is only one other point which I would like to mention, and that is a very familiar one. We withdraw, of course, large sums of money from the pockets of the people at the time of our land revenue payments, and I think it is true—everybody admits it, I think—that if possible we should try to return that to the market as quickly as we can; and it would be useful to the market, because I think in Calcutta the period of pressure in the money market is very much at a time when we are wanting to draw the money in our own kists. Is not that so, Mr. Gillan?

10,201. (*Mr. Gillan.*) Yes?—I think so, but I am a little rusty.

10,202. (*Chairman.*) You were just saying that owing to the circumstances in connection with the land revenue you are obliged to withdraw these big sums, that is to say, you are obliged to collect these taxes just at the moment when trade is very busy?—Yes.

10,203. I want to put to you a suggestion, without indicating any opinion of my own upon it, in order to hear your opinion. In this country a large portion of our revenue comes in in the last quarter of the year?—Yes.

10,204. If we followed Indian practice, as I understand, we should carry forward a balance from the previous year sufficient to finance us through the first lean months of the new year?—Yes, that is so. We let it run off, so to speak.

10,205. What we do is the opposite. We borrow during the first nine months, and repay the market when the revenue comes in?—Yes.

10,206. Is that system applicable to India?—It is very interesting that you should put it. I was talking over an hour and a half on that subject yesterday to one of the most competent authorities in this country on that very question, and he put to me the exact point which you are putting, and in the same way. He said: "Now, could that be done in India?" I confess, to be honest, that my answer is that I have not considered it. I doubt it for the moment. I think the first answer probably of the India Office, and I think of Mr. Abrahams, would be: "Why should you borrow if you can keep your own "money; you have your own stocking, and if you can "keep your own money in your stocking, and have "enough to pay all you want to pay, why should "you borrow at any time?" I find it rather hard to meet that argument. Why should you ever borrow if you have enough funds of your own to pay?

10,207. It is sometimes more economical to borrow to meet your temporary wants than to hoard your money without interest in order to have cash at the time you want it?—Quite, but my answer rather would be that I should like time to consider whether I could see my way to something of the kind.

10,208. You would not like off-hand to express any opinion as to whether the resources of the Indian money market are such that the Government could count safely upon borrowing year in and year out on deficieney bills?—No. I quite understand the point. I am not prepared to offer an opinion off-hand.

10,209. Will you resume your statement?—The next question I think, comes really into our currency

system. For many years I have been minuting and making notes for the Government of India, advocating strongly the necessity for holding a great deal more gold than it has ever been the custom to hold against our currency. The first instance that occurred, showing at any rate that some gold is necessary, was at that crisis of 1907. When that crisis occurred I was Accountant-General at Bombay, and the crisis occurred in Bombay, so that with this particular crisis I had more to do officially than anybody else. We had a certain amount of gold then in our currency note reserve, and the exchange bankers came to me. Exchange had turned against India, and they wanted gold for export. The orders of the Government of India were, I think, that I was not to give out gold except in parcels of £10,000 for internal use. I think those were the orders. I went on my knees almost to the Government of India saying how wrong I thought that policy, and that when exchange had turned against India the only thing to do was to give out every ounce of gold you held without inquiring who wanted it, or why it was wanted, but simply give it out. Possibly there was not enough—there was not enough, I think—eventually to arrest any drain of that sort. The bankers came to me and said: "Well, what can we do?" They wanted to remit. I am afraid my answer was: "I am in a very difficult position; my "views are not held by the Government of India, "and I think the only thing you can do is this: "You are very powerful in London; go to the "Secretary of State and urge your case"; and what happened was that the exchange bankers who were very powerful in this country, and all the big firms in Bombay (many of them very powerful also) wrote home to everybody that they could think of in this country; the senior partner in the biggest firm perhaps in Bombay was then or had been Governor of the Bank of England; and what they did was this: They went to the Secretary of State and said: "You have got to do something," and the result was that the Secretary of State then began to sell reverse councils. Then I was asked how much the trade wanted. I went to all the exchange bankers, or they came to me, and I asked: "Now, how much do you think you want?" and they gave the proper answer: "Not very much, but if you limit the quantity, a great deal." Then there was a contest whether it was to be five or six hundred thousand, or what it was to be, and my advice continued to be all the time that it should be absolutely unlimited. I said: "The larger the amount you are prepared to sell, "the smaller will be the amount taken." The result was that the banks took considerably more at the time than they wanted, and returned it afterwards, simply because the amount was limited.

10,210. Your primary object in the advice which you were tendering at that time was, I suppose, to maintain the par of exchange?—Yes, that is so, to let gold go freely wherever you had it, either in India or in England, to all comers without any restriction of any sort or kind.

10,211. And for that purpose it would in your opinion have been the proper course to use your gold at once and freely?—Yes, anywhere and everywhere.

10,212. Do you think that the giving out of the gold to all comers in India would be as effective for the maintenance of exchange (which you said was your primary object) as to ship that gold to London and to sell sterling bills?—No, I think it is unquestionable that at a time of adverse exchange where you have got to remit large amounts, it is simpler to take large amounts where large amounts are, and therefore at a time of adverse exchange the simplest way is to draw on a central reserve; but that to me is a very different thing from saying that the gold you hold elsewhere is of no use—that gold which you hold is of no use in maintaining your par. That I hold is a great heresy.

10,213. I am not dealing with that for the moment; I am dealing with a particular course which you told us you recommended. In the crisis of 1907 you had a certain amount of gold?—Yes.

10,214. You say that your object in using that gold was the maintenance of exchange?—Yes.

10,215. How could the gold which you held be made to go furthest in support of exchange? Would it be by the method which you seem to advise of giving it out to all comers without inquiring whether they were going to hoard it, because they were getting in a panic, or would it be better to ship it to London and offer to sell sterling against it?—I think I would rather let it go to all comers, because when the exchanges are unfavourable, I think what you want to do is to let your gold out, and I do not think it matters very much what the reason is which is actuating the man in asking for it; that is to say, if a man hoards it he is withdrawing the currency, which is raising its value; if he is going to spend it in ornaments, he is not taking it because he wants ornaments any more than before, he is taking it from the bullion which would have come from London or elsewhere to India. Therefore, that always seems to be a little like saying to a man withdrawing his deposit when there is a run on a bank, "What do you want it for?" I think the best thing is to let him have his money and not say, "Why do you want it?" I do not think that matters materially: but I am in agreement with the general opinion, that at the time of adverse exchange, it is more convenient to have gold in the central reserve to be drawn upon, but I would not have actually remitted gold from India for this purpose, viz., in order to be drawn on.

10,216. (*Mr. Keynes.*) You say that if a man takes it and hoards it, that reduces the volume of currency, and so alters prices, and so eventually rights the balance of trade?—Yes.

10,217. Everybody would agree with that, I think, as what would happen in the long run, but in a country like India that would take perhaps a year; or even longer, before it had its full effect?—Possibly.

10,218. It would have almost no effect upon the immediate crisis in hand; it would not steady exchange over those three months, probably, would it?—I do not think we are in much disagreement over that, but what I would rather say is, that the fact of the man taking that gold out for use simply has the effect of releasing the gold in London which would have been exported normally from London to India for use. As regards hoarding, I think the man is only hoarding very temporarily. That is to say, he is absorbing gold because it is rising in value; just as one buys securities when they are rising. This gold returns to the market, just as the security is sold, so soon as the hoarder can get a profit or realises that no profit is to be made. I am not speaking of permanent hoarding.

10,219. (*Chairman.*) Does that mean that he just withdraws it from the market during the crisis and that he brings it out again when the crisis disappears?—I think that may be true of a commercial crisis, and that is a point I wish to bring out in regard to Lord Goschen's scheme for 1*l.* notes, which has been so often quoted. In a commercial crisis, where gold is the foundation of a large superstructure of credit, I think that may be true—I have rather in view the question of protecting the exchange of India over a continual decline. My view is that gold withdrawn when the exchanges are unfavourable comes back quickly into the market for the holder to realise his profit or in his recognition that the exchanges are not in permanent danger. I am looking at the long view of exchange, so to speak, rather than the short view, because this is not necessarily a case of a sharp monetary crisis; it is a case of exchange slowly turning against the country.

10,220. (*Mr. Keynes.*) I should agree entirely in that, that to let out gold to people in India helps in the sufficiently long run to steady exchange, but if it is a matter of a monetary crisis, as it was in 1907, or if it is a matter of making people quite sure that exchange is not going to fall, then the immediate effect of releasing gold to the public in India is very slight, whereas using it to offer drafts on London is very great. You would agree with that. That is not the point at issue, is it?—I would agree that, if by a magician's wand I could have removed at that time the gold that was in the Currency Note Reserve in India

into the hands of the Secretary of State, its liberation would have acted more quickly on an adverse exchange but that would be the extent to which I would hold that.

10,221. If you had said to the exchange banks, "The Secretary of State's reserves in London are to "be used for the cashing of drafts, and the gold I "have here will be put at your disposal," would that have had a more immediate effect?—I rather think that might have created a fear in the people's minds (which is what affects exchange temporarily). I would rather have said, "Take all the gold you want: have the gold; here it is." If we had had enough gold we would have stopped the fall entirely. The gold would simply have been exported.

10,222. But the people whose fears you wished to allay were not the people in the interior of India, so to speak, but people who wished to remit, or thought they might wish to remit, to England. They were the only people whose fears it was important to allay at the moment?—No, because I do not think this is a momentary crisis like a commercial crisis in the city. It is rather a case of exchange slowly moving against the country.

10,223. But if the exchange banks think that there is a little doubt about the maintenance of exchange, then it is very like a monetary crisis?—But then you have to consider also the people of the country, if they are suddenly refused gold. You are injuring the status of the gold currency in the country—if at a time of difficulty you say, "No, you cannot have any "more gold; the Secretary of State may want it, and "I am going to ship it."

10,224. But keeping to the exchange banks for a moment, at a time of crisis the amount of adverse trade balance which they must meet immediately is small, and as the exchange falls the exchange banks begin to get anxious as to whether they will be able to remit back in the event of there being a drain on their depositors in London, or something of that sort. They have a great deal of funds raised in London and used in India?—Yes.

10,225. They begin to get a little nervous whether, if they want to bring those back, they can?—Yes.

10,226. Therefore their tendency is to remit to England very much more than is required to meet the adverse balance of trade, which at the moment is very small, and the important thing to do first is to make them feel perfectly secure that they can bring the money back when they want to. When you have those conditions you have practically the conditions of a monetary crisis rather than a trade balance crisis?—I would put against that the fact that you will create greater annoyance and fear in the minds of the people (which will affect exchange) by withdrawing all gold from India when the exchanges are becoming adverse than by letting people take it without hindrance or questioning.

10,227. How will it affect exchange?—Because the people will not like gold if they find that when they want gold they cannot get it. What happened before 1907 was this: We were gradually introducing gold into the currency of India. When the exchanges went reverse the gold began to be exported. Now what you are in effect saying is: Sweep up practically all the gold you have in India and send it over to London to be drawn against by the exchange banks. I do not think that would be a good thing for our gold currency.

10,228. Are you arguing this way, that if you let out gold freely in India to all-comers it will not help that immediate crisis, but it will give the people of India confidence in gold which will, in the course of the next 10 years, increase the amount of gold which they keep?—Yes, partly.

10,229. And then in the case of a crisis you will be in a stronger position. That is the first part of your argument?—Yes, partly that. There is the argument also, that to the extent that they take the gold out which they are going to use in the arts it is gold taken from the country which would ordinarily be imported, and therefore you save this amount of gold from being imported. The gold taken into hoards comes out directly the price is attractive. In other words, each way is righting the exchange, and one rights it a little more quickly than the other.

10,230. Of those two parts of your argument the first is contingent upon the whole question as to whether a greater amount of gold in circulation does help exchange even in the very long run?—Yes.

10,231. The second part of your argument is not contingent upon that, and I should not think it would be disputed by anybody that if it hinders the importation of bullion from England which would otherwise have taken place it does in the course of the ensuing year help exchange?—Yes.

10,232. (*Sir Shapurji Broacha.*) Shall I help you? In 1907, when the crisis came, I see the Mercantile Bank asked permission to withdraw from the currency 20,000*l.*?—Was that for Ceylon?

10,233. You wrote, "Why do you ask?" You can take it from me. I think as a precaution you wired to Mr. Baker, and Mr. Baker wired back to you not to give the gold unless the gold was for internal use, and not for export, if I have the correspondence rightly?—My recollection is that one of the banks, it may have been the Mercantile Bank, asked for gold, and I was asked to ask why. I did what I was told, but all the time I expostulated, and I said it was very wrong. It does not, in my view, matter why it was wanted. I think it was wanted for Ceylon, and I was told to refuse it.

10,234. I think you gave an order and the order was countermanded, and I think you wrote and said that though the countermanding of the order had come, still they could take that amount?—It is possible that I took the responsibility of giving it and then asked for confirmation of my action, thinking it could not be refused, and it was refused. I do not remember, but it may be so.

10,235. Then at that time there were 4½ millions in the Currency Department in gold?—Yes.

10,236. You knew the crisis of exchange was coming?—Yes.

10,237. Instead of following your advice and giving out gold as much as was wanted without asking the reason, supposing you had put that gold into the Treasury and had not given it out, would not that 4½ millions have served to allay the panic in the exchange if you had only given that gold to the exporters? But as it happened you gave away the gold, at least, you practically gave the gold, to Indians, and the result was that no gold was left?—I agree to some extent with Mr. Keynes. I think we took the very worst possible course, which was to give it to people who helped exchange least. I agree with Mr. Keynes on that point. It was the worst course we could have pursued.

10,238. And in the time of crisis, if according to your advice you give away all the gold, people know that there is only 10 annas worth in the rupee, and would not they try to secure the substance for the shadow?—I think that argument can be pushed too far. There is a certain volume of currency which is required to sustain the par which you are on, and it is really unthinkable that a very large quantity of that circulation can be presented for encashment.

10,239. You see, much gold had been absorbed before 1907—from 1901 to 1907?—Yes.

10,240. And by some management or other there was only 4½ millions left, and it did not take much time for people to take it away?—No. If your point is that we ought to hold a great deal I am entirely with you, but if you talk of there being a serious danger of the whole of the money of India being presented for encashment then I think you are wrong.

10,241. The working of the Indian mind is such that on the least alarm it will tender rupees if gold is is procurable?—I am in sympathy with a great deal of your view, but I do not hold it to the extent to which you put it, I think.

10,242. (*Chairman.*) Let me ask a question which I think is of practical importance in regard to the present situation. In what you have said you say you are eventually contemplating a much larger amount of gold being held in India?—Certainly.

10,243. And in the meantime you have only a limited quantity of gold?—Yes.

10,244. Do you think that as long as the gold is so limited it is wise to give it to all-comers at a crisis; or while your reserves are inadequate do you think it would be better to use it only for the purposes which immediately serve the maintenance of exchange?—I think that becomes entirely a quantitative question. If the amount is considerable, I would far rather run the risk and give it out to everybody. If the amount is clearly insufficient, whether you do or do not give it out, does not, I think, much matter. You will get your crash.

10,245. (*Mr. Gillan.*) You would like to have enough gold to sell for all purposes?—Yes; I agree with a good deal of what Sir Shapurji is suggesting. I think you create a certain amount of distrust if, directly anything happens, you immediately ship practically all the gold you hold in the note reserve to be drawn on in London. I think that would create a want of confidence. That is the argument which I am putting with regard to that. I quite agree with Mr. Keynes that it does not act on the spot so quickly as selling bills on a central reserve. I do not deny that for a moment.

10,246. But the drain for these internal requirements about which you have been talking might be very heavy in any case. I mean it might be 10 or 15 millions?—But why? I do not quite see why it should.

10,247. You think it would not get to that?—I do not see why it should. I do not see where the distrust should arise. That, again, depends upon how much liquid gold you are keeping. If you are keeping enough to meet all reasonable contingencies, I do not see why there should be a drain upon you.

10,248. You gave out 4½ millions in 1907–8, did not you?—Yes. I have not verified the figures; I have heard the figures given.

10,249. It might be a great deal more than that?—It might be.

10,250. I mean on another occasion it might be that a great deal more was taken out?—I do not quite see why.

10,251. (*Mr. Keynes.*) If you increase the taste for gold it might. In 1907 it was rather the beginning of the idea of using gold much in India. There has been a great deal of progress since that time?—I hope so. I have been working at it very hard since about 1901 or before.

10,252. (*Lord Faber.*) But the volume of trade and figures generally have increased so enormously since 1907 that I think you would have to be prepared for a great deal more than 4½ millions, or anything of that sort?—I should like to see an amount enormously more.

10,253. (*Chairman.*) Perhaps it would be convenient if at this moment I asked you to turn your attention to the gold resources of the Government of India?—Yes.

10,254. There is first the Gold Standard Reserve. I think you have indicated already what your view about it is, but I should like you to state it definitely to us?—I should like practically the whole of the Gold Standard Reserve to be held in liquid gold. I am not speaking of all eternity; a point comes when you would not require so much; but at present I would like every sovereign to be in liquid gold. Then the question arises where it should be located.

10,255. Before you come to that, just let me ask you this: would you under present circumstances fix any limit to the growth of the Gold Standard Reserve?—Might I take that later, because I was going to suggest something in connection with possibly amalgamating our note system and our rupee system which would touch that point; but taking the immediate position, I should like the whole to be held in gold. I think it is something like 22 millions. Then on the question as to where it should be held, I entirely agree with the view which I think has been the view of the India Office and of Mr. Keynes, that whatever is held should be held in London to be drawn on. My objection to advocating that hitherto has been this: We all know that England is the gold market for the world, and England holds extraordinarily little gold, something like 37 millions. It is very small as compared to what other people hold. If we held 22 millions in practically a safe deposit in the Bank of England, and that amount grew, as I think it should grow, to something like 40 millions, then I think what must happen is this: Instead of the City going on putting its house into order, and the big bankers keeping a larger reserve of cash over liabilities, and rather strengthening our gold position, there would be an inevitable disposition to say: "Oh, "well, we have got 45 millions of Indian gold locked "up at the Bank of England, and we need not bother "very much, because if anything very serious is going "to happen it can be utilised." I put that argument in very high quarters to a friend of mine in the City, and I think when Mr. Cole gave evidence here that point was put to him, and he rather repudiated it, but, with great respect to what Mr. Cole said then, I do not agree, because the position has not arisen, and if the position did arise, and the Indian Government did hold this enormous sum at the Bank of England, I think it would be inevitable, and rightly inevitable, that it should be utilised. It would be an enormous safeguard to England and to the Empire if anybody from within the Empire could lend that money. The Bank of France lent, I think it was, three millions to the Bank of England at the Baring crisis. If we had had those 45 millions then, it would have assisted us very much. Therefore I have always said that I would rather have that gold held in India, for the reason only that until the City had put itself into rather a stronger position I would rather the gold was held in India, so that it was not present to their minds that they had that to fall back upon—not so nearly; but I have thought it over, and I have spoken to a great many friends now about it, and they declare that they do not think it would make much difference, and, that being so, I am in accord with the view which Mr. Keynes would put and the India Office would put, that the gold should lie at the Bank of England rather than in India.

10,256. Of course, the three millions which the Bank of France lent was not in London, was it?—No, I do not think so.

10,257. It was not because it happened to be in London at the moment that London thought of having recourse to it?—No, I do not think so, but I believe the relations between the Bank of France and the Bank of England are generally pretty cordial.

(*Lord Faber.*) The Bank of France discounted bills for England.

10,258. (*Chairman.*) Just as we should hope that the relations between the Imperial Government here and the Government of India would be very cordial?—Exactly.

10,259. The point of my question being that, after all, the additional security, if any, which you get by holding gold in India would not be very great?—No; that is why I have altered the view which I have generally held, and expressed to the Government of India—never in public, but in minuting. I am inclined to think that it would be better to hold that gold in the Bank of England.

10,260. Passing then from the question of the location of the gold in the reserve, will you now give us your views about the two reserves?—On the question of liquid gold as against securities, may I just make a point which I wish to make about that? At present the traditional policy of the Secretary of State has been to hold practically nothing in liquid gold—a mere bagatelle of a million or a million and a quarter, or something like that. He holds the rest in securities, some short-dated and some long. I have the greatest dislike which it is possible to state to that policy, because when gold is wanted what you are doing is creating a demand for it. You are then selling securities and you are demanding gold, whereas if you have a reservoir of gold, which is what you really should have, of 22 or 40 millions sterling, and you begin to turn the tap on, it is exactly like turning on water in time of drought; you are making it cheap instead of raising

its price against yourself, and therefore to hold a small amount of liquid gold and a very large amount of securities to me is madness.

10,261. Your view, I understand, is that when the time comes when you need to use the reserve, that course aggravates the crisis which the reserve is intended to avert or to mitigate?—Yes; and I should like to quote from what the Governor of the Bank of France, M. Pallain, has said. What has been generally said is: "Oh, yes, but we are in a very ticklish position. Therefore let us invest our reserve," but that is almost the same as saying, when a bank has got small till money against a large liability, "Well, it had much "better not hold that, for if it is invested it will grow "bigger." It is an argument really of that nature. M. Pallain, the Governor of the Bank of France, when that very question was put to him about investment before the National Monetary Commission of the States, said: "It is true France holds proportionately more specie than any other country"—this is a little condensed, but it is substantially accurate—and he goes on to say: "If it held, say, two milliards less, "and so obtained 80 to 100 millions as interest, "it would lose the advantage of the reduced rates of "interest which the character and extent of its "reserves enable it to maintain, and also the "sentiment of absolute security and financial inde-"pendence in a crisis." Then he added, which is very interesting, that "the balance of payments is always in favour of France." In India the balance is nearly always in favour of India, but M. Pallain maintains that view even in France, where it is always in favour of France.

10,262. (*Mr. Keynes.*) May I ask whether you agree with what he says there? It strikes me as most disputable?—Yes, I do.

10,263. And it seems an unlikely statement?

(*Lord Faber.*) You mean that the balance is always in favour of France?

10,264. (*Mr. Keynes.*) Both that and also the point that the steady bank rate in France is only kept up by the very large gold reserve which they keep?—That is in document No. 405, page 217, in the American Commission.

10,265. Yes, I know that view is expressed; but you are probably aware that the view ordinarily held is that the reason that the Bank of France can keep its bank rate so level is that it is not a very free market for gold?—I am afraid I deny that. The Bank of France has never charged a premium on redeeming its notes in gold, and I believe the Bank of France has never refused to give gold for export.

10,266. But it did so only the year before last. There was a premium of three-quarters per cent. in 1911, which is equal to about 3 per cent. on the bank rate?—All I can say is that I am quoting the Governor of the Bank of France, and he says—this was, of course, in 1908—"The bank has never charged a premium on redeeming its notes in gold."

10,267. (*Lord Faber.*) That is, notes in gold; but if you went to France and tried to get a large quantity of gold, unless you had their notes you would not get it. They would put every difficulty in your way?—I know that is stated, but unless you can give me the very clearest proof of it I do not believe it, because it is said of Germany, and Germany has categorically denied it. I can give you a much stronger quotation from the Bank of Germany.

10,268. (*Mr. Keynes.*) I think it is well known that the heads of these banks do say these things, but it is equally well known that they are not quite literally the case?—I have further statements of responsible officials. I can give you a statement of Germany: "The "Reichsbank never has taken, and never will take, any "steps, or suggest their being taken, to prevent the "export of gold, and considers such measures absolutely "wrong. Some banks so refused for wrongly under-"stood patriotic reasons, and were reproached by the "Reichsbank, which expressed the wish it should not "happen again." That is a statement by Von Glasenapp, the vice-president of the Reichsbank, and Von Lamm, another director; so that, so far as my information goes, it is entirely denied by the great banks.

10,269. (*Sir Shapurji Broacha.*) What date is that?—I am quoting from a document of 1908.

10,270. (*Mr. Keynes.*) You would not find any non-official authorities in this country to bear out that view, would you?—I do not know.

10,271. (*Lord Faber.*) Much water has run under the bridges financially since 1908?—Yes, but my point rather is that whether they do it or not—and they say they do not do it—they clearly express the view that it is wrong to do it. I maintain that—that they say it is wrong, and they say that they do not do it. I understand that some of you gentlemen say they do, but my point remains still clear. As regards the question of principle, they admit that it is wrong to do it.

10,272. (*Chairman.*) You did not have occasion to try to get gold in France yourself in the early part of this year?—No. As you are on that quotation there is another point, but I do not want to bother you. This was said by one of the directors of the Deutsche Bank: "We have so much money in gold in circula-"tion and in the pockets of our people that there is no "concern over the small cash holding in the banks, as "the public has the money in its pockets. Our "strength is in our Reichsbank."

10,273. (*Mr. Keynes.*) What is the date of that?—That is from the same document, document No. 405 of the Monetary Commission.

10,274. You are aware that since then the Reichsbank has deliberately reversed that policy?—No, I am not. The Dresdner Bank says the same thing, that they hold a great deal of gold in their pockets; and Dr. Salomonsola of the Disconto Gesellschaft estimated the gold reserve in the pockets of the people at four thousand million marks, and went on to say, "It is "more satisfactory to have a reserve carried by the "people than the banks."

10,275. You are aware that when the Reichsbank was started there was a deliberate prohibition of notes under 5*l.* in order to get gold into circulation after the manner which you have described?—That might be.

10,276. But at the last revision of the Bank Act that was deliberately altered; small notes were introduced, and since then the amount of small notes which may be issued has very greatly increased, the authorities of the Reichsbank deliberately saying that they do this in order to get gold out of the pockets of the people into their own reserves. What you were stating was the policy of the Reichsbank from its foundation up to some time about five years ago, but they have altered their opinion since that time?—I take it from you. I am only speaking on the information I have myself.*

10,277. (*Chairman.*) Let us revert to the Indian case. I had asked you to give us your views as regards the two reserves generally?—Yes. For a long time I have been wanting to suggest to the Government of India—but having left India now one's interest has waned a little—that it would be worth considering the question of amalgamating our currency note system and our ordinary currency system. At present our rupee is really a note printed in silver and our note is a note printed in paper. We are undertaking the liability to preserve the whole on a parity with gold at 1*s.* 4*d.* By way of taking a figure as an illustration, supposing we will say there are 180 crores of silver in circulation and 60 crores of notes in circulation. I should be rather inclined to look at the question: how much gold should we hold against the two together, against the 180 crores in silver notes and 60 crores in paper notes; and do away with the Gold Standard Reserve. To take a figure by way of illustration, say

* I do not admit the relevancy of this argument. The German note issue system is in effect a hard money system. A gold note is therefore in effect pretty nearly a safe deposit receipt. I am not arguing—and I do not believe—that a 20-mark piece is better in circulation than a note for 20 marks against which the whole or nearly the whole is held in gold in the Reichsbank. On the contrary—with Lord Goschen—I prefer such a system, but I maintain that the best Continental opinion—German, Austrian, and Russian—is with me in holding that a gold currency is a line of defence against an unfavourable balance of trade.

that we hold 25 crores of gold against the 180 crores of silver, and say we hold 15 crores of gold against the 60 crores of notes, as a fact—I am assuming that at the moment—that would be 40 crores. Then what I would suggest is some plan of this kind: for every rupee we issue we keep the same proportion of gold, 25 to 180, or whatever is fixed, and similarly for whatever notes we issue we keep the same proportion of gold, *i.e.*, 15 to 60. That is the sort of system I would prefer, I think, to see introduced by the Government of India. I do not know whether I have made it quite clear?

10,278. Yes, I think so?—The question of the surplus which they might hold would be separate. I refer to the silver held to ensure the encashment of notes in silver when preferred, and the holding of commercial bills or securities against the silver and note issues.

10,279. I think it is a somewhat practical matter, though it may look rather theoretical. Do you consider that the amount of the Gold Standard Reserve is conditioned by the amount of token money in circulation in India, or is it conditioned rather—I will not say exclusively in either case—by the course of the Indian trade?—I do not think you can very well dissociate the two, but I would say that theoretically there is a certain volume of circulation which has to be in existence to keep the parity of prices at 1*s.* 4*d.* for gold and silver. Will you assume for a moment that at present that is 180 crores. Now, ordinarily speaking, as long as that parity holds you would not require anything behind it, but if the value of gold should rise in terms of commodities, you may require something behind those 180 crores. Also there will be certain seasons when you sometimes require a little more or a little less; in other words, the amount really that should be behind that 180 crores need be very small, assuming no serious changes in the value of gold. I am not an advocate of it being very small, because I take no risks, and that is why I mention as an illustration the figure of something like 25 crores.

10,280. Am I to understand that your view of the Gold Standard Reserve is that it should be regulated on the same principles on which you regulate, say, the stock of gold which you hold for encashment on bank notes here?—Yes, I would let it stand simply on its own feet—that India has enough gold to back its silver and notes.

10,281. But India would have to get enough gold to meet any influx of token money in the shape of notes or rupees into the treasuries?—Yes.

10,282. And you would leave a sum sufficient to be on the safe side, but not more than is required for that purpose?—Yes. The question which arises as regards the balance of trade is rather different. When you have a currency and a certain equilibrium of prices, it does not very much matter theoretically whether the currency is made of bone or what it is made of; the danger arises when there is an adverse balance of trade and you have to export, I do not propose to go into the further questions which arise and the necessary readjustments of the exchanges and prices.

10,283. (*Mr. Keynes.*) Are you advocating that gold should be kept for the redemption of rupees when the gold is not wanted for export at all, and there is no unfavourable balance of trade?—Yes, I was saying that I should treat the rupee as exactly in the same position as the currency note. It is a note which is printed in silver.

10,284. Is not that a purely wasteful practice, and of no use to anybody?—No, I think not, because there is the danger in having 180 crores of rupees current at a value in excess of their intrinsic value.

10,285. Apart from the question of an adverse balance of trade and the exchanges is there?—Yes.

10,286. I thought you were suggesting that such facilities should be given to exchange rupees into sovereigns in India merely to satisfy somebody's whim to have sovereigns rather than rupees, and not to satisfy the adverse balance of trade by the export of gold?—No.

10,287. You do not think that gold is only wanted for the purposes of export?—No. Assuming you have certain counters which produce a certain price between the counters and the commodities, if there is a change in prices due to change in methods of business or a rise in the value of gold, you will require less of those counters. If those counters are bone you cannot reduce them. I mean if the counters are of no intrinsic value you cannot reduce them; they have a tendency to stick. You cannot reduce token currency, in other words, in the way that you can reduce a full value currency, which goes away until a near equilibrium is established.

10,288. If you redeem rupees for sovereigns and the sovereigns are kept in the country and not exported, the volume of currency is exactly the same as it was previously?—Yes.

10,289. Therefore there is no effect on prices?—But they may present more counters than you have gold behind. My point is that a full value currency seeks its own level, but a token currency cannot be contracted.

10,290. But whether they do or not, the question of whether you can redeem them in sovereigns or not does not affect how much currency there will be out, and, therefore, does not affect prices?—Surely that again is the question. My point is that you require a certain volume of currency in India to sustain the parity of prices at the par which you have got of 1*s.* 4*d.* and if you have got to export—if the change is such that the currency must be contracted, you cannot contract a token currency (except by destruction).

10,291. There I agree, but I thought you were saying that you wanted facilities for the exchange of rupees into sovereigns when sovereigns were not wanted for export. That is what set me off upon the other argument?—No, my view as regards that would be rather different. I maintain that it is better to have a gold currency for India because at present gold is too plentiful. What happens with extra supplies of gold is that instead of the gold being used throughout to keep a certain par of prices, we have used the counters, whereas if gold had been used both in England and in India there would have been a greater demand for gold, and that would have given a different range of prices, and would have been better for the world. Instead of the high prices from which we have been suffering, we should have had lower prices, because there would have been a greater use for gold.

10,292. But it would have been rather expensive for India. I agree that it would have been of advantage to the world?—I think India would prefer it to the present system. At present the position is that the Secretary of State has got about a million and a half in liquid gold against these huge liabilities. India would infinitely prefer to have the gold current.

10,293. (*Chairman.*) You do not base your whole argument on the small amount of liquid gold which at present exists in the reserve?—No.

10,294. Assume that the proposals which you have made in that respect are carried out, and that something of the kind is done, and that the amount of liquid gold is very largely increased?—The point I was just putting to Mr. Keynes was that I would rather see a gold currency in India because of the fact that gold has been very plentiful of late, and it has been a disadvantage to the world that the supply of gold has been so large and has not been utilised. I would rather have it spread over a greater area.

10,295. Apart from that general world interest, in which in your view India shares, do you see any special advantage to India in other directions in establishing a large gold currency?—Yes, I do not think India can very easily skip the stage of a gold currency. What happens in the world in currencies is that each nation begins to use the currency which is useful for its units of transaction. It begins with copper or iron or something of that sort. Then as a country becomes wealthier it uses silver, which is a bigger unit; as it becomes a little more wealthy the unit rises, or there is a larger unit, and it begins to use gold; and I see no reason why we should seek to arrest the natural course of events in India. For large units gold is more convenient and more portable.

10,296. Is your historical view quite universally correct? Assuming that it is true of the past, before private credit had been developed as it has been, do

you think that the younger nations—take Canada, for instance—are following all the stages which the old world went through?—No.

10,297. Are they not rather taking advantage of the experience of the convenience of a paper currency to what you call skip the gold stage?—Yes, I admit that Canada is a very excellent instance against my argument, but I do not think that that is true broadly of the world. I do not think it is true of France, Germany, Austria, or Russia.

10,298. (*Mr. Keynes.*) By using gold, do you mean using gold as the predominant medium of exchange?—I rather put it as using gold when they want it; that is to say, when they find for their unit of payment it is convenient to use a thing which is of higher value than silver, they use it.

10,299. Would you maintain that any of the countries which you have named have ever used gold as the predominant medium of exchange? You may say that they have used as much as they want; but that, in point of fact, they have not wanted it. Which of those countries would you say has ever used gold predominantly?—The gold in France, according to Monsieur Pallain, was between five and six milliards of francs, of which the bank then held 3¼ milliards and the rest was in the pockets of the people; so I would have said of France that France has a very large gold circulation.

10,300. France has a gold circulation?—It has a very large gold circulation.

10,301. It has a large gold circulation, but, even in France, it has never been the predominant medium of exchange?—Naturally, because it is a question of the parities fixed by Government between gold and silver. From, I suppose, the middle ages, the parity between gold and silver has been continually altering to the detriment of silver, and as the cheaper metal drives out the worse, from about then until 1870 people have used silver. That was the reason for that.

10,302. That was the reason, no doubt; but the fact was that they did use predominantly notes and silver. If you turn to other countries, such as Germany, Austria, and Russia, which of those has ever used gold much?—I believe Germany uses a good deal. I believe, in 1907, the Reichsbank held 95½ million dollars in German gold coin. Austria and Rusia have also held considerable amounts.

10,303. In reserve?—Yes; and as I read to you just now, some of these authorities have an immense belief in holding gold.

10,304. (*Chairman:*) Are you not at the present time a little confusing gold held in reserve—held by a central bank reserve—with gold as a medium of daily currency?—No; I was using that merely as an illustration showing that there is a good deal of German gold coin in existence, and for the moment the only figure upon which I can put my finger—the only one of substantial amount—is the one in the bank.

10,305. None of us doubt that for a moment, but the question is whether the gold is the main medium of circulation?—My answer would be that the fact of these reserves being largely held in German and Austrian and Russian coin points to these countries having gold in circulation, otherwise they would consist of foreign coin or bullion. It is a very difficult thing to do to count the money in circulation, so that I can only put my finger on this gold coin held by the bank; and I merely give this as an illustration showing that as it is held in the banks the assumption, it appears, is that it is held elsewhere. That is what I meant. For instance, Russia held 12 millions in 1897 of new gold of their own coin. I am merely giving those as illustrations that gold coin exists in those countries, and I presume if it exists inside the banks it exists outside the banks.

10,306. I do not think that we need go into that any further?—It was merely that I wanted to say that I do not admit the position that the great countries of the world do not see the advantage of having gold in circulation. In fact, I entirely deny it. I admit that Canada is an exception.

10,307. I am not quite clear about the ultimate object in view in the proposal which you suggested for the amalgamation of the two reserves?—Because I think it is, roughly speaking, the same liability. I do not see why you should have one system for the note issue and another system for the silver issue.

10,308. At the present time the note issue is redeemable in rupees?—Yes. We give gold also for it if it is asked for, but we do not commit ourselves.

10,309. Are you looking forward to a time when the Government could undertake the obligations to redeem the notes in gold?—Yes, I should like to see the Government do that.

10,310. (*Mr. Keynes.*) And at the same time maintain its present obligation to redeem them in silver as well?—Yes, both.

10,311. So that you would have to keep a reserve twice as big?—Not necessarily at all. You have to estimate what the demands are likely to be.

10,312. It would mean keeping a larger reserve?—You have already a very large reserve which you are holding for exchange purposes at home.

10,313. (*Chairman.*) In regard to the Gold Standard Reserve as it at present exists, have you any observations to make upon holding silver in the Indian branch of it?—I think I would rather that it was not held there. In the first place I think it is a wrong entry. When you are holding gold against a token rupee, it seems to me to be wrong to hold in your gold reserve six millions of token rupees against a token rupee. Secondly, it is also—which is a smaller point—very wrong in accounting, because the six millions of rupees which you have not issued should be entered in your balance sheet as bullion. Until you have succeeded in issuing them at your parity of 1*s.* 4*d.* they are simply silver, and that six millions really should be counted as about four millions, say. But I look upon that as a sort of counsel of perfection. I do not think it matters a great deal. So long as you hold in the Gold Standard Reserve a great deal more than you ever require, there is not much harm in holding six crores of rupees, or anything else; but it is surplusage from this point of view.

10,314. Now, I would like you to turn your attention to the paper currency circulation and reserve to ask you for general observations which you wish to make upon that, and in particular to ask your opinion as to whether any greater elasticity is needed in that circulation than at present exists?—I think it would be very desirable. At present we keep a small amount of securities, about 14 crores, and the rest is held in hard cash. I think we might keep a good deal less in hard cash: but to meet your point as regards elasticity, I think it would be very desirable if we could do something to increase the volume of our note circulation, in fact, the volume of our currency, at times of active trade. In some of the notes which I wrote for the Government of India some years ago I made some tentative suggestions. There is one form in which I think we might do something. At present our method of managing our cash balance is after this fashion. Supposing an up-country treasury has to pay five lakhs of rupees, then it indents upon the Comptroller-General — upon us—saying it wants to make five lakhs of payments which it cannot make; it is deficient to that extent. Then we say, very much as a cashier says, "How will you have it?" and they say, "Well, we want five lakhs; we could pay a lakh of rupees in notes and the rest in cash." It is very possible that that treasury might be able to make a bigger payment in notes, but it is not going to take the responsibility of saying so because it might then be caught short of rupees. Everybody will take a rupee up country. Let us assume that it could have made payment of a lakh and a half in notes instead of a lakh. If the currency department in times of active trade issued notes to the treasury—to the cash balances—we could then send them up country and say, "I will send you 1½ lakhs in notes and the rest in rupees." If they find that the public will take that extra half a lakh they will be economising half a lakh of silver, and that will, of course, be available somewhere else. Broadly speaking, my idea is that as you require a larger number of counters in times of active trade than in times of dull trade it might be possible through our treasuries for us to put into circulation a

greater number of uncovered notes at that time and retire them when the strain decreased. I thought something of that kind might be worked out; and it is for one of those reasons that I would like, if possible, gradually to get to a system by which our treasuries are worked by the banks. If we took a share in the Presidency banks, the first thing I should like to see would be for our Government treasuries to be put under the Presidency banks. Possibly at first they would work them like a working company operates a railway company. Directly they do that and there are suitable arrangements about the sharing of the profits between the banks and the State, you can put your paper currency in their hands. I think if banks worked our treasuries in course of time we should probably get a large extension of our note issues, because I quite agree with what I think would be Mr. Keynes's view, and I think is the view of most of us, that theoretically and eventually I should like to see a large circulation in India of paper very much as you are seeing in Canada. (But not on the Canadian system.) I think that is the ideal that we are all aiming at. I am only questioning the times and the hurdles which you have to jump, so to speak, before you get to this state of things.

10,315. Do you think that the Government of India has ever had a consistent and persistent policy on this subject?—I think the first time that this was ever suggested was when I suggested it verbally about 10 years ago, and the last time when I made a tentative mention of this was in a note, I think, in 1909.

(*Mr. Gillan.*) May I ask, Mr. Chairman, whether you mean the elasticity or the general encouragement?

(*Chairman.*) I meant the general encouragement.

(*Witness.*) I thought you meant the elasticity.

10,316. No, I meant the general encouragement of a note issue?—We have taken an infinite amount of trouble, and we have doubled or trebled our circulation of notes, I should think.

10,317. It has grown very much, but has that been the result of a definite policy, or partially the result of a definite policy, by the Indian Government?—Yes, before about 1904—when did we make the five-rupee note universal, do you remember, Sir James Begbie?

10,318. (*Sir James Begbie.*) In 1905, I think?—Up to 1905 our note circulation system was in sorts of compartments. There were about five or six circles which issued their own notes. I think in 1900—I forget how it arose—the Government of India wrote round to all of us to make certain suggestions. I forget whether it was in connection with gold, or what it was. I then wrote a long note suggesting that we should try to increase our paper currency by making the five-rupee note and the 10-rupee note universal and allowing them to be cashed by all the circles throughout India. That was carried, oddly enough, in the teeth of the opposition of the Bank of Bengal and of the then Comptroller-General. Sir Edward Law got frightened in the end and only universalised the five-rupee note. Then in 1909, as soon as I got an opportunity, when I was in a position of more authority, I again made the suggestion and said: "Let us now be much bolder and take up to the 100-rupee note."

10,319. (*Chairman.*) That has been done?—Yes. It was originally agreed to take up to the 50-rupee note by the Secretary of State, but he allowed us power, if we found it a success, of including the 100-rupee note, and I think in a few months—six months or a year—we universalised the 100-rupee note, and this has had the effect of very largely increasing our note circulation.

10,320. Would you be inclined to carry that further now?—Not further as regards higher denominations of notes, but I would carry it further by multiplying the numbers of cashing centres.

10,321. Have you anything to say specially on the question of not universalising large notes?—Yes; just at this point perhaps it would be *apropos* of what might have been in your mind in saying, "Would you be inclined to carry that further"? The reason why we prefer in India to keep the 500-rupee note, and the 1,000-rupee note, and the 10,000-rupee note separate is that they are really media for remittances. If we made them universal, it would simply mean that a trader who wanted to take five or ten lakhs up country would simply take 10,000-rupee notes out of our offices in Bombay and present them up country, or across the Continent, for encashment. That is putting upon the Government the cost of moving trade money. Now Government has to do this, to a certain extent, owing to our having on our own account to bring money backwards and forwards throughout India, and from our various treasuries; so, as we have to do it, and sometimes our interests coincide with those of the merchants and the bankers, we do, therefore, a certain amount of this business, giving them money up country and taking it in centres and *vice versâ*. It is much more convenient for us to extend this system than universalise very large notes, because we then know where we are. If you govern the large movements of money, and people come to you and say, "We will come to you for one-sixteenth or three-eighths," we know then where we are, and we can place our money, whereas if we allow them to do this by these large denominations of notes, we do not know where we are. It is bad for the country, because we have to keep our reserves dissipated. I do not know whether I have made it clear.

10,322. Yes. Then I think we can now turn to the question of the character of the gold currency. Perhaps that should be preceded by another question: Do you favour the opening of a mint in India for the coinage of gold?—I would prefer it, because I prefer a 10-rupee piece to coining the sovereign, my main reason being that a 10-rupee piece is a more convenient unit than a 15-rupee piece; and my second reason is that the wear of gold coin in the world is much greater in the west than it is in the east, and there would be a danger of our being shot in India, so to speak, with the light sovereigns and half-sovereigns of the west, whereas in India the wearage is very very slow. The wearage of silver in India as compared with silver in the world is about one-third of the rate. As a sovereign wears at a much slower rate than silver, and as the gold would be much less used, and would change hands much less often, you may say that the honest wear of a coin in India would be almost negligible, even of a coin the size of a half-sovereign.

10,323. You would therefore like a mint to be opened in India for the coinage of gold because you would like to see a 10-rupee piece coined?—Yes.

10,324. On the other hand, I think you said just now that you were anxious that the note circulation should be encouraged and increased as much as possible?—Yes.

10,325. Have you no fear that the coinage of a 10-rupee piece would prove a dangerous rival to the note circulation?—Yes, a 10-rupee piece I personally believe would be popular, and I think that popularity would be partly at the expense of the 10-rupee note, but I should think mainly at the expense of the rupee. I admit that at once. But I think it is better to have your currency, so to speak, on its own bottom. That is why I prefer a gold currency.

10,326. You do not think there is any disadvantage in introducing a new coin into the Empire (assuming always that you are to have a coinage in India) instead of coining the same coin?—I do not think that matters in the least, because the 10-rupee coin in the markets of the world would be just as good as anything else. The 10-rupee coin as regards all the great banks, of course, is bullion, and, as you know, in the case of all the great banks their gold is held as bullion, and it does not matter where it comes from, whether it is Napoleons, 20-mark pieces, or whatever it is. In fact, the 10-rupee coins would be particularly good, because they would be very nearly their true weight from the absence of wear.

10,327. (*Lord Faber.*) Do you think that the circulation of the sovereign in India cements the Imperial tie at all?—I think it may do to some extent, but I do not think the 10-rupee piece would oust it very much. The sovereign would be used also just as it is at present.

10,328. (*Chairman.*) Do you think that there is any popular demand for the coinage of a 10-rupee piece in

India?—I put it rather the other way; I think that there is a general feeling in India that they are being put off with a poor thing; that is to say, gold is good enough for everybody else, but they have to use a token rupee; and I think from that point of view there is a popular demand.

10,329. I ask you because, though no doubt other witnesses have expressed themselves in favour of the opening of a mint for the coinage of gold in India, I think hardly one of them has answered the question, what coin should such a mint coin, in the same sense as you have; they have nearly all said that it should be the sovereign?—I would quote, I think, in confirmation of my view, the greatest authority on Indian currency matters, both scientific and practical, Sir David Barbour; his view, as you know, is in favour of the 10-rupee piece. In his latest book he reiterates that. It was his first view and it is his last view.

10,330. On the same ground that you have put it, that it is a more convenient coin for the transactions of the people?—I think that would be so; it is more convenient to use.

10,331. You have already said something to us on the question of what the view of the banking business of India should be. Would you care to develop that in general principles?—No, except as regards the establishment of a central bank. My only fear about a central bank has always been this: In the first place, where are you going to have its centre? In the second place, I doubt whether the very best people in business firms in Calcutta and Bombay can be spared to go from each of those places to Delhi, if the centre be there, or, if it be at Calcutta, to come across from Bombay. Again, I think if you have a central bank you are getting a lot of top hamper, because you would have a central bank board wherever it was, and then you would have your local boards in the three cities, and then again you would have a London committee, probably, whereas the essence of banking, I should have thought, is trusting the man on the spot to lend the money from his local knowledge of the conditions; and the more you multiply the people above him, the worse banking you probably get.

10,332. In the scheme which you foreshadowed to us, it is your idea that the three banks would remain separate, the Government being partners with each of them?—I think so. I say frankly one would like in these matters to meet a lot of friends and people acquainted with the conditions of India, and of Indian banking, and thresh it out, but that is how I should start my own view at a conference, and see what adherents it got. Our trade needs are so very different in India. Calcutta practically relies on the jute trade and the rice trade; Bombay on the cotton trade; the North-West Provinces and the Punjab trade is wheat and seeds; and Madras, oddly enough, is a sort of mixture of everything. I do not see how you can very well unite them usefully. To take what was, I think, Sir Everard Hambro's idea, I cannot think it is a right thing to increase the capital of a bank in order to get greater security. I should have thought it was just the reverse. You increase the capital of the bank when it is worth doing for its business, and if you increase the capital of a bank without knowing how you are going to make money, your position will be worse, because you will go into worse business in order to create your dividends.

10,333. Has the statement which you have made, and have your replies to the questions which have been put, covered the evidence which you wish to lay before us, or have we omitted any part of what you would like to say?—There is one thing which one would rather like to point out in explanation of present conditions: At present you have a sort of division of interests—of spheres—between Presidency Banks and the Exchange Banks. The Presidency Banks' business—I am not speaking quite so much of Sir James Begbie's bank, but I am speaking of the Bank of Bengal, it is not the case with Sir James's bank—consists of operations in the internal exchanges and of handling the internal banking of the country. The Exchange Banks' business is the bullion trade, the external exchanges of the countries, and the trade at the terminal ports. That has been a convenient arrangement between the two, but, of course, it avoids competition very largely. I think it is anomalous that the Presidency Banks should not have access to London as they are the banks who are the residuary trustees, practically, of Indian banking. They, therefore, are the people who should have the right of resort to London. On the other hand, the Exchange Banks would fight this desperately, because they say it would mean their competition in the external exchanges. Each, therefore, at present rather keeps its own sphere, and neither criticises the other. You will, for instance, hear the Exchange Banks say how admirably the Government manages its paper currency, because the alternative would be that it would be handed over to the Presidency Banks; conversely the Presidency Banks do not compete with, or express strong opinions about, the state of the gold exchanges, for, if they were stable, the Exchange Banks would have to employ their resources in competing for the business done by the Presidency Banks. One must always take opinions with a grain of salt, therefore, because personal interests are involved. Surely what we want from the point of view of the interests of India is to reduce the variations in the external exchanges, which I think occur by the manipulations of councils by this gold exchange standard system. I would rather see gold move backwards and forwards from India than have the rate of exchange altered much by the India Office. I would like to see the external exchanges vary within very small limits. So, too, in reducing the variations of the internal exchanges by what we are doing with notes and drafts we are cutting very much into the monopoly of the Presidency Banks. But my difficulty is this: Supposing we give the Presidency Banks eventually our paper currency, and they get access to London, and you are cutting down the external exchange, what are the Exchange Banks going to live on? What I would like to see personally is that the Exchange Banks should make their way up country and do ordinary deposit banking. At present we have all sorts of rotten mushroom banks started all over India. They are all tumbling down now, but what one would like to see would be the Exchange Banks going up country and going in for ordinary banking instead of relying largely on the external exchanges. This is, I think, the great problem before us now. If we can get them to do this we can solve the situation; otherwise there will be this constant antagonism between them and the Presidency Banks.

10,334. I am obliged to you for your statement. I do not think I have many questions which I want to ask upon it beyond those which I have put to you as you went along, but I will refer to one or two things to see that I have your meaning clearly. Take the question of what you call the till money, or disposition of the balances, under present circumstances. I want you to correct me if I am wrong, but I understand your view to be that after getting what you require in India as till money you would like to work to a time when that money should be left in India?—Yes.

10,335. Unless or until it was required over here?—Yes, with reasonable facilities. One does not want the Secretary of State to be in a hole.

10,336. But I also understood, and it was about that that I wish to be clear, that you did not think that under the existing circumstances that policy could be adopted to the full extent at once?—No, because I do not like the idea of lending cash except in times of crisis. I wish balances to be with the Presidency Banks as our bankers.

10,337. And unless some such proposal, or something else to the same effect, were adopted, do you think that there is a better way of using it than bringing it to London?—No, but I think there is a better way of using it in London than we have done.

10,338. I think you indicated that before, and we did not take it up at the time. Will you tell me what you mean by that?—I think it is a danger to the City that money should be lent by the India Office to the market and to other banks. If they have very large sums at their command it means that the Bank of

England does not know where it is. It is the Bank of England which really surveys the question of the rate of interest on what moneys are being lent in the City, and if through any miscalculation anything goes wrong the brunt falls on the Bank of England. Then I think the difficulty is whether the Bank of England will take Indian moneys, and I suppose the only thing to do is to ascertain. I take it that the Bank of England would prefer the money to be invested in floating securities, but I suppose if it was pushed it might lend it out for India. You would no doubt get much lower rates.

10,339. As long as the balances have to remain in London, you would therefore like to see them administered on behalf of the Secretary of State by the Bank of England?—Yes.

10,340. Instead of by the present system?—Yes, unless you can have this, in which I fancy Lord Kilbracken would say there is great difficulty. I do not know the laws governing the administration of Indian affairs by the Secretary of State. Possibly you could have a committee in the India Office, or a body of people appointed *ad hoc* who would not be swayed by their other interests. This would be almost as good—not quite, because they would be still in some position, I will not say of antagonism, but their interests would be different from and unknown to the Bank of England.

10,341. One other question relating to another part of your evidence. You foreshadowed a time when you hoped that there would be a very much greater amount of gold coin in circulation in India?—Yes.

10,342. I understand that you do not want that greater amount of gold coin to be procured at the expense of notes; at any rate, not at the expense of existing notes?—I should rather look at it in another way, I think the ideal thing to do is not to force matters, but to let the people have what they want, that is to say, neither push the one particularly nor the other. I think at present we have too little gold, and what I would like, at present, is to push gold a little, but directly we get India on to what I consider a safer basis, then I should let the people have their choice; if they want a note, let them have it, and if they want gold let them have it.

10,343. I thought your view was that when a very largely increased amount of gold was in circulation in India the present dangers to the exchange, which the Gold Standard Reserve is there to meet, would be very much diminished?—Certainly. There is, of course, less that could be redeemed.

10,344. In the meantime there is a passage perilous to be crossed, is there not?—Yes.

10,345. You think that under present conditions the amount of gold in the Gold Standard Reserve is too little?—Enormously too little.

10,346. That being the case, what would be your immediate advice to the Government of India? Would it be to strengthen your Gold Standard Reserve first and then to press your gold coinage later, or would it be to press your gold coinage and leave the Gold Standard Reserve to take care of itself?—I think my answer to that would be this, that as far as circumstances permit I would keep the whole of that 22½ millions which we have at present all in gold. As regards the next question of what the currency of India is to be, what I personally would like to see is that Councils should be sold at such a rate that people would prefer to take gold to India for currency. You have your 22 millions, and I would prefer gold to go to India for use, so that we reduce our liabilities in India, but I would not stop the rupees if people wanted rupees. What you have to do, I think, is to give the people what they want. To the extent that they want rupees, of course, you are increasing your Gold Standard Reserve. I would go on adding to my liquid gold as long as I made rupees, and I would put no obstacle in the way of gold flowing to India if it was wanted.

10,347. At present the Gold Standard Reserve is fed from two sources, the interest on its vested securities and the coinage of new rupees?—Yes, but you would have no interest.

10,348. If your proposals were adopted, of course there would be no interest?—None whatever.

10,349. Then the only way in which the Gold Standard Reserve would grow would be by the coinage of new rupees?—Precisely.

10,350. If, however, you were pressing as far as you could the circulation of gold, you would to that extent check the growth of the circulation of rupees?—Yes. I do not quite like the word "press." The ideal that one is trying to aim at is to use what you like; if you want rupees you shall have them, and if you want gold you shall have it.

10,351. You do not think, then, that under the present conditions there is any need for the Government of India to encourage those steps by which it can quickest build up its gold reserve?—No, not at the expense of stopping the export of gold to India.

10,352. (*Lord Faber.*) Are you in favour of the India Council drawing enough bills for its yearly wants and no more than that? After that would you let gold go if there were no bills to be bought?—I think I would prefer that system, but I admit that it is more expensive, because you must give rupees to the Indian people as long as they require them. What that would mean is that the gold would on occasions be exported to India, India would export the gold back to London, possibly, and silver would be bought, and so on. I think really I would prefer that to variations in the rate of council drafts, but I admit that it is expensive.

10,353. Otherwise do you not get to this, that you are allowing the Council bills to be used for trade purposes and not for the Government needs? If they sell more than they want for Government needs, of course the Council bills which are bought in London are being used for trade purposes?—I confess, thoretically, I prefer the present system. My real objection to it is that I do not think you can get anybody to hold the balance level between silver and gold, but I do think the most economical system is the present one, which is to sell the bills for the silver which India requires, and if that could be done in heaven, so to speak, I should much prefer it.

10,354. Of course, for the moment, at any rate, that does prevent gold going from London very often?—It depends on the rate, clearly, but then it comes to the same thing, because the gold comes back when the silver is given. It is merely more expensive.

10,355. I think I am right in understanding that you would like the whole of the Gold Standard Reserve, which now amounts to 22 millions, to be held in liquid gold?—Yes.

10,356. And held in London; and it might be allowed to grow to 40 millions?—I named that rather as an illustration. One has not thought very deeply about the exact figure, but it would be something like that.

10,357. And that that gold should be earmarked and not touched without the permission of India?—One moment about that 40 millions; I am not quite sure that I think it would necessarily be 40 millions. I have always in my mind that we have in the Gold Standard Reserve included the gold which is held in the Paper Currency Department, which has come in in payment for notes. I would rather prefer to put it the other way, that I think India would be pretty safe if it had 40 to 50 millions of gold against its total currency liabilities. I do not know whether I have made it quite clear.

(*Lord Faber.*) It is quite clear; that is all I need ask you.

10,358. (*Mr. Keynes.*) I should like to ask one or two questions about that rather novel suggestion that the lending in London should be through the Bank of England. I suppose that would amount to the Secretary of State having to make a deposit with the Bank of England and getting interest on that deposit?—Yes, I should think so.*

10,359. That would be a very great reversal of the Bank of England's policy, would it not, which has

* I meant to say: Possibly or the Bank lending the Secretary of State's balances on his account.—F. C. H.

always been to refuse to pay interest on deposits?—I should rather like to be excused from giving evidence upon that point, because I have had many conversations with people, and what I have heard is more or less in confidence; but you can take this much from me, that I have not made that statement absolutely idly. I do not think I can say more than that. I do not know what the Bank of England would agree to.

10,360. I do not know whether the Bank of England would welcome a thing of that sort, because it would put them in a very difficult position with a great many other persons who would like to adopt a similar system and put money with the Bank of England and get interest on it?—I think they would dislike it, but the question is, whether they dislike the present state of things more.

10,361. Your argument is that the present system weakens the bank rate sometimes at a time which is inconvenient to the Bank of England?—I would rather put it that it weakens its control of the bank rate.

10,362. Would not putting money with them at interest have an almost similar effect, because the amount that the Bank of England lends in the market depends almost entirely on the bank rate. They fix their rate and lend as much as they are asked to lend at that rate?—Yes.

10,363. If they have to get more money out into the market they must lower their bank rate. If they did not, it would mean that they were paying money to the Government of India, and not lending any more in the market than they would lend otherwise, which would be a clear loss to them?—Yes. Well?

10,364. So that they could only prevent the Indian money from weakening the market by paying over to the Secretary of State a certain amount of interest, which would be a clear loss to the Bank of England as a commercial concern?—I do not quite follow that. The Bank of England is ready at its rate to lend openly, but only to the extent, of course, that people can borrow on the securities which they take, and if more money is placed at the disposal of the Bank of England by the Secretary of State it will enable them to lend more money, it might be at that rate or they might have to lower it; it depends upon how much people want to borrow, and what the Bank's resources are.

10,365. The point I am leading to is that the channel through which the money is lent cannot really make very much difference from the point of view of supporting the bank rate?—I think it makes an enormous difference. They would remonstrate; they would say: "It is an absolute nuisance your keeping "this money; you had better invest it—put it into "floaters."

10,366. If they could make the Secretary of State do that I agree it would make a certain amount of difference?—I think undoubtedly they would.

10,367. But they have either got to lend out all the money he puts with them, in which case things would be very much as they were before so far as the bank rate was concerned, or else they might lend out a less amount than he puts with them, in which case they are handing over to him for nothing interest on the balance?—I do not follow that. If you have more money to lend you can lend more, and it depends upon what people are asking for loans, and what they can offer. It is quite true, as you say, that the Bank says "the rate is 5 per cent.; now let them all come"; and then they begin to borrow. If they found that more were borrowing than they wanted, they would raise the rate.

10,368. (*Lord Faber.*) In fact, they would lend the Indian balances in the open market on securities?—I am suggesting that they would. I do not follow your argument, Mr. Keynes. If they have more money to lend, they have more money to lend, and it does not follow that the rate will depend upon how much people are wanting.

10,369. (*Mr. Keynes.*) My argument is that at present, after having fixed their rate, they lend to all-comers on good security as much as they want?—Obviously, but if it is more they will raise the rate. You are taking it as unlimited. If people come to them to take more than they can give, of course they raise the rate.

10,370. But the effect of having more money is, and must be, that they cannot get it out on the market at the old rate.

10,371. (*Chairman.*) I think Mr. Keynes is looking at the opposite contingency to the one you are looking at. You are suggesting that more borrowers may come than the bank has money to lend?—Yes.

10,372. And you say in that case they would raise the rate?—Yes.

10,373. Mr. Keynes is suggesting that the bank might have more money to lend than there were borrowers at the rate?—Clearly; I quite admit that that might be.

10,374. (*Mr. Keynes.*) That is so?—Either contingency may be possible.

10,375. (*Lord Faber.*) It would have to go with the market as a fact?—Yes.

10,376. (*Mr. Keynes.*) So that from the point of view of helping the bank rate, it does not seem to me that it would make very much difference unless the Bank of England was prepared to bear this loss and pay something over to the Secretary of State and not get it back by lending the balances itself?—No, I think, as the Chairman puts it, either contingency may arise. If the bank cannot lend the Secretary of State's balances at the rate it considered suitable, judging from the funds at its disposal, my view is that the bank would lower its rate or ask the Secretary of State to reduce his balances or require him to take them off the market by investing them.

10,377. (*Chairman.*) I take it that is really your answer. Your objection to the present system, or one of your objections to the present system at any rate, was that the Indian money broke the bank rate?—Yes, I understand the Bank says so.

10,378. Mr. Keynes's suggestion to you was that the Indian money would break the bank rate, whether it was loaned direct to the market or whether it was loaned to the market through the bank?—I admit that it might affect the bank rate.

10,379. (*Lord Faber.*) But we have got to look at the Government of India in this matter. Do we care very much what it does with the London market at the moment? It is a mere commercial transaction which occurs every day between a country bank and a London banker. A country bank has a large balance over, and it comes to its London agents and says, "Lend out this balance." The London agent lends it out at market rate. If that market rate is too little, the country bank says: "Buy bills with this balance or invest it. It is not enough for us"?—Yes.

10,380. He deals with the London bank in that way. If the rate that he can get from the market is not suitable, he tries to invest it somewhere else, and that is what the Bank of England would do with the Indian balance?—Yes.

10,381. Whether it would take it or not I do not know?—No, nor do I.

10,382. Only it is a very good account, and I should think the Bank of England might not care to run the risk of losing it?—I fancy the opinion would be that this is what is called bad money, that is to say, it comes in these very large amounts and it runs off at times which the bank cannot very well control. I do not think the Bank would take it with enthusiasm.

10,383. (*Mr. Keynes.*) Of course, even if they invested it it would not make very much immediate difference, because if they bought Consols, or whatever it was, off the market, it would mean that the market had so much more money?—I believe that the view I have given is the opinion of the City.

10,384. (*Sir Shapurji Broacha.*) You say that people have a preference for 10-rupee gold coins. Is it a general preference? Is it a theory or not?—Do you mean in preference to sovereigns or in preference to silver, or what?

10,385. I mean a 10-rupee gold coin instead of a sovereign?—It is a better unit. Obviously, as it has never been tried it must be a matter of opinion.

10,386. My question is: Is there a general demand for a 10-rupee gold piece instead of a sovereign in India?—I should have said that people who have considered the question, or people who would consider the question (which would be better), would probably advocate a 10-rupee piece. It must be a matter of theory.

10,387. Because I have come across contrary opinions, and all the witnesses have given their opinion in favour of the sovereign. You know, I think, that about 50 or 60 millions of sovereigns have already gone into India?—Well.

10,388. And the people have taken them?—Well.

10,389. Why alienate them from that taste and give them another coin?—If they do not want the sovereign they need not take it.

10,390. But it is a theory of some people?—It must be.

10,391. It is a theory that a 10-rupee gold piece would be more preferable; it is not an absolute want, an absolute preference which they have for a 10-rupee piece. You can put your hands on very few who have asked for it?—It must be a matter of opinion until it has been tried.

10,392. Then what I say is this: It will be inconvenient for me to take 5 or 10-rupee gold pieces to Italy. Can I have the same convenience for converting them as I should have for sovereigns?—Certainly not.

10,393. Then why have another coin in the Empire when one has already been taken very kindly to—so kindly that they have absorbed so many millions in the last 13 years—I think they have absorbed more than 50 millions? Does not that mean that they have taken a liking to the sovereign?—Yes.

10,394. If they have taken a liking for a coin of the Empire, what is the use of breaking it?—I am suggesting an alternative; I am not proposing to break it.

10,395. But is the alternative much preferable? You take a coin of the Empire and you give them a coin which is not convertible into the currency of another country easily, because they will have to weigh the gold and find the quality of the gold and so on?—Yes.

10,396. It is inconvenient, and for what purpose—what benefit?—Then they need not take it.

10,397. Then why should you do it?—Because I believe they will take it.

10,398. Shall we make an experiment of it?—I believe they will take it, and therefore I say try it.

10,399. (*Mr. Gillan.*) I think the witness's point is this: He is not doubting the utility of the sovereign, but he thinks that a 10-rupee coin would serve a further facility in addition to the sovereign. Is that the point?

(*Witness.*) Yes.

10,400. (*Sir Shapurji Broacha.*) But what facility would it give? It would not give any for exchange or for taking money to foreign countries. A sovereign is easier to change than a 10-rupee note, and if you have circulated 10-rupee notes why should you undergo all this inconvenience for a 10-rupee coin, which is theoretical, and the value of which we know nothing about or how people will take it. You want a gold currency as opposed to a gold standard reserve?—I do not advocate a gold currency as opposed to a gold reserve. I am in favour of a very large central reserve.

10,401. You say that it will reduce the liability of the Government?—Certainly.

10,402. Do you think it will reduce it to the extent of what has gone to India in the last 10 years?—To the extent of the currency, yes.

10,403. Has it lightened the liability of Government?—To the extent that sovereigns, whatever the amount may be, 20 crores or so, has taken the place of the currency, yes.

10,404. But the number of rupees remains the same?—No, the number of rupees would have been more.

10,405. If you take 10 millions of gold to India from here, the 10 millions go into circulation?—Yes.

10,406. They do not stay in the Currency Department to reduce your liability. The only reduction of liability is to the extent of the number of sovereigns which you have in the Currency Department?—And in circulation.

10,407. No, that is not reduction of liability?—Yes, because it would otherwise be rupees.

10,408. But at any alarm the sovereigns will remain in the pockets of the people. Even in this country sovereigns do not come to help the Bank of England, and yet it is on record that there are in the people's pockets something like 100 millions?—I do not agree for a moment that the sovereigns in the pockets of the people are not valuable as a protection against a fall of exchange. I do not admit that for a single instant.

10,409. I have here extracts from a speech by (the then) Mr. Goschen,* which have been sent round to us, and he says that it is no use at all?—Pardon me, that is where I would like to traverse that argument, which is not Lord Goschen's. Lord Goschen was talking of quite a different thing; he was speaking of the insufficiency of the gold held in London, in view of commercial or monetary crises, and he advocated, firstly, having 1*l.* notes instead of sovereigns, and his original suggestion was that we should hold two to one, I think it was—two in sovereigns and one in securities against the 1*l.*; and he finally changed that into four sovereigns to one of securities in the latest edition of the speech. He was not on the question of an adverse balance of trade, but he was speaking of preferring to have gold at time of monetary crisis in the centres rather than in the pockets of the people. I am not contesting, and I never would contest, that view. Should a crisis supervene the gold might be utilised, for it is the base of a large superstructure of credit, but I do not think Lord Goschen ever suggested, and I am sure Mill would never have suggested, that gold in the pockets of the people is not, in the ultimate resource, of value in liquidating an adverse balance of trade. It is exactly the same in the end as if you owe 5*l.* in India to London and you have got 5*l.* worth of coins in your pocket; you have to pay the 5*l.*; you may have 5*l.* in the bank, or you may have 5*l.* elsewhere, and it may be more convenient to take it from the bank to London; but if you send that money, that has got to go from the currency of the country, and that will go in gold from the pockets of the people if not otherwise obtainable. Whether it goes from the pockets of the people *viâ* a bank or not I do not care, but it goes.

10,410. For instance, suppose exchange is under par, and the balance of trade is against us, how could a gold currency support exchange? Against what will you pay that gold into the Currency Department to help it?—That means, surely, that India owes London money. When India owes London money it will first draw on its balances in the banks, and if a larger amount than the banks have is still owed they raise their rates of discount, and the money goes in from the people, and the result is that the whole of that money has to go when the liabilities ——

10,411. No, it would not go, because for one reason there is an alarm as to exchange, and gold is a more valuable substance, and if they have not paid their debts they will pay their debts in rupees?—But they cannot if they have to pay abroad, because the rupee is not current abroad.

10,412. It is the bank that has to pay abroad. They pay into the banks rupees. No sovereigns came out during the crisis of 1907–9; on the contrary, they were taken away?—Very likely. I would not admit, though, the relevancy of that.

10,413. Is not the credit of the country greater by having gold in reserve treasuries than gold in the pockets of the people?—Yes, I agree, but I would like to have it in the pockets of the people also.

10,414. Is it not now the policy of all countries to preserve gold rather than to diffuse it and waste it?—No, I believe not. I believe that the policy of Europe is both to keep gold in their central reserve and to use it in their currency. The great countries of the world have actually reduced the legal tender of silver. Germany restricts its silver coinage to 20 marks per head.

* Speech delivered by Mr. Goschen at Leeds on 28th January 1891 (*see* "The Times" for 29th January 1891).

10,415. It has increased it?—No, it has decreased the coinage of silver and restricted it to a maximum of 20 marks per head.

10,416. No, you will fotgive me; it was only 6 marks per head, which they have increased by legislation to 15 marks per head in German silver coin to preserve gold as much as possible by using silver coin? —I entirely disagree. The object of the Continental banks has been to restrict the legal tender quantity of silver with the intention of promoting gold.

10,417. No, in Germany they have increased it to more than 100 per cent., from 6 to 15. It is more than double?—I am afraid we must leave it at that.

10,418. I think someone will bear me out. I know they have passed a law by which they have increased the silver coinage to 15 marks per head instead of the 6 marks which was the former amount?—I do not think if that were so it makes against my point.

10,419. That is to say, they preserve their gold in the central department—in the central bank?—My information and opinion is different.

10,420. I know you say it is your information, but I am stating a fact, so, of course, it does not matter?—I do not think you quite follow my meaning. Even if what you said were true it would not meet my argument. My argument is that Germany and the great countries of Europe have reduced the legal tender amount of silver in order to increase the use of gold. You say the limit has been raised, My point is that the Germans have fixed a limit, and the object of fixing a limit is to increase the use of gold by the people. The effect of fixing that limit is to increase the use of gold.

10,421. You mean like fixing it in England at 40s.?—Yes, they reduced it in Germany, and I think in Russia. It has been the tendency on the Continent.

10,422. My information is that the tendency is more to reserve gold?—It may be that what Mr. Keynes says is true, that in Germany the tendency may now be to prefer to hold gold in reserve and issue notes. I have no recent information. My information, as far as it goes, is the reverse.

10,423. You have no objection to gold being held for the Gold Standard Reserve by statute in England?—Why by statute?

10,424. That is to say, nobody can use it without breaking the statute?—I do not see any necessity for making a statutory provision.

10,425. So as to reduce the alarm of people who think that gold will disappear in this country?—I should not like to see it, because I think in times of great crisis it would be right to use it.

10,426. Is not India part of the Empire in a time of crisis?—Yes.

10,427. And do you think that in India gold is always safe?—I think I have said that my own predilection, for the reasons I gave, would be for holding it in India, but I am prepared to accept the policy of holding it in London.

10,428. (*Mr. Gillan.*) I want very much to get exactly what is in your mind about this gold currency question; it is not quite clear to me. There is a preliminary point first, but it has a bearing upon the argument. The present system has the merit, has it not, of economy?—Yes, but not quite so great, I think, as is made out.

10,429. That is precisely the point I wish to put to you: What weight ought one to attach to that? I mean, one may put the arguments in this way, that by having a reserve, and so on, you can earn a certain amount of interest?—Yes.

10,430. Put in that way it does not seem to have very great force, but there is another way of putting it, perhaps, in which it does acquire some force, and that is this: It might be said that India at present is a very poorly-developed country, that it has got urgent needs for the employment of its capital, and that if you are acting in any way to force a gold currency you really are diverting funds which might be more profitably employed, that is to say, you really are electing for a gold currency as an object which is more important than other objects to which the capital of India might be applied?—I admit that there is an economical waste in using a gold coin where you can use another of equal security, but I am rather taking the view which the Governor of the Bank of France took in the other case. I consider the advantage of having a currency which is safe beyond dispute is so enormous as regards the credit of the country and every other point of view, that I consider it outweighs that; but I admit that there is an economic waste in using a gold coin.

10,431. I just want to get at the weight which you attach to that argument?—I attach immense weight to it.

10,432. To come to the crux of the question, it seems to be this: Do you or do you not hold that it is possible to support exchange by a system of reserves?—Yes, I think it is quite possible to create such a large fund for the profits of a token coinage, say 40 millions, 50 millions, or 60 millions sterling, that it would be more than ample to stand any possible drainage. My objection, as I said, was firstly, on the ground that I think it is bad for the world, because I prefer to see gold more used——

10,433. I will come to that later?—That is one argument; there are two reserves.

10,434. I will come to that later, but you think it is possible to provide for the necessities of exchange by a reserve?—Yes.

10,435. I think it was Professor Conant, with whom you were associated in your investigation, who said that the gold exchange standard provides a means of removing the exchange difficulty without interfering with the domestic needs of the country?—Yes.

10,436. Do you agree with that?—Yes, we both agreed. That is our report.*

10,437. In that report which I have, you and Professor Conant said, with regard to the treatment of internal currency, that in monetary matters what the people need is only to be ascertained by experiment?—Yes.

10,438. And you went on to say that in matters of money you had a strong preference for following the line of least resistance, that is to say, giving the people what they need?—Yes.

10,439. That is your position?—Yes.

10,440. Is that position quite consistent, I do not say with your attitude, but with the attitude of those people who seem to wish to have a gold currency at all costs?—I do not want to have a gold currency at all costs.

10,441. If you look upon a gold currency as a necessary support of exchange, then in that case it would apparently be necessary for the Government to overlook the requirements of an internal medium and do their utmost in one way or another to convert the internal medium into gold?—No, I look at the ideal for India to have gold as a convenient unit for the purposes of their transactions—to have enough gold in its currency so that we can abolish this system of an exchange standard. When the balances turn against India the marginal gold can be exported, Government standing aside from these operations.

10,442. Quite so, but you do not regard it as essential for the support of exchange?—That it should be in circulation?

10,443. Yes?—No, I think it is more immediately efficient if it is in reserve. I quite admit that.

10,444. Then I take it your general position would be that the exchange standard is a good system, but that for a permanency a gold currency is better?—Yes, and I hold that for another reason. I say it is a pity that the monetary arrangements of a very large country should be dependent upon the monetary arrangements of another, and I think essentially the exchange standard system as hitherto worked has always been this, that England works practically the money of India, and I would prefer that the money of India worked automatically. That is my objection. My other objection, to which I think you said you were coming, is the question of your affecting the

* Monetary Reform for Nicaragua—Report presenting a plan of monetary reform submitted to Messrs. Brown Brothers & Co., and Messrs. J. and W. Seligman & Co., by Messrs. F. C. Harrison and Charles A. Conant, April 23, 1912.

markets of the world for gold, that is to say, spreading the gold. I prefer that gold should be used in India because you are spreading the consumption.

10,445. That is a point which I think you have already put in answer to questions?—But it is really an integral part. You asked me why I wanted a gold currency. That is one of my principal reasons for wanting a gold currency.

10,446. Another point which you put in this report of yours is that at present the system is a managed system?—Yes.

10,447. Do you get rid of the element of management under a gold currency?—I think so, if it is considerable. The silver then becomes a true token currency. Silver would be coined just as you coin it, only on a larger scale, in this country, and in any other country where it is fractional, and people then bring their gold to the mint when they want money; and when the exchanges turn they export gold. They all do it themselves, and all you have to do is to provide enough silver for the wants of the people, which you provide, so to speak, as a departmental arrangement.

10,448. You cannot even then get that without some system of reserves?—No, a reserve has got to be held against the note issue, and so long as the token rupee is a serious menace—I mean to say when there is a very large quantity—then you require some gold held against that but, directly you hold a very large gold currency, your need of a reserve goes on decreasing as your currency increases, and you require less reserve.

10,449. If you had a country with no currency except gold, even then it would be necessary for the banks or somebody to keep a reserve?—Yes, but that is quite separate—against the note currency or against their banking liabilities. That is quite a separate matter, and that has nothing to do with the currency or the Government. That is a reserve which the banks keep against their liabilities.

10,450. It would be upon that reserve that you would have to come, if you had for any reason a demand for gold for export?—Yes, on private account; that would be the gold which would be held by all the bankers doing the business of the country. If anybody wanted to export coin he would go to his banker. It has nothing to do with the Government.

10,451. You would have that reservoir of gold somewhere apart from what the people have in their pockets?—No, I think not. If you are taking the case of no note circulation, no. There need be no reserve. The banks hold what they choose to hold against their liabilities, and if you have to make a payment you go to your banker and say, "Pay my liability," and the banker provides you with the gold.

10,452. Do you not get an element of management in the fact that it rests on the bankers to say how much they will hold in reserve?—Private management, not State management.

10,453. It is a matter then of private or State management?—Certainly, because the money of the world is always the business of the great banks or of the Government.

10,454. (*Chairman.*) Then when you object to a managed system, what you mean is not that it is managed, but that it is managed by the wrong person; it is managed by the Government and it ought to be managed by a financial institution?—Yes, you should leave it to private enterprise.

10,455. (*Mr. Gillan.*) Then I think that the last and perhaps the most important reason that you gave in this report for a gold currency was that under an exchange standard there is only one line of defence, the reserve fund, and with gold circulating or in hoards there will be two more?—Yes.

10,456. It is perhaps important from that point of view to consider that in India the position is rather different, or at least it seems to me to be so, and I want to ask you whether you agree. We have heard about waistcoat pocket money?—Yes.

10,457. There is perhaps a tendency to say that all money held by the people themselves in India is of that character?—Yes.

10,458. Would you agree that it really consists of two portions, one the coins which they require for ordinary tronsactions?—Yes.

10,459. And secondly, a reserve which they put by?—Yes.

10,460. That is to say, a margin?—Yes.

10,461. And that there are different arguments which would apply to those two portions?—Yes.

10,462. Do you hold that the portion which is required merely for ordinary transactions is available for export?—It must be available in the last resort if the demand continues. It seems to me these arguments come down to a question of the debt. If India owes England a certain sum, if the amounts which are in the reserves of the banks are sufficient, the liability will be satisfied. Beyond that the banks change their rate, and money then comes into the pockets of the people from their hoards, but finally all the money has to be exported as long as liability continues.

10,463. I am not talking about hoards at present, I am talking about the amount which is required for the ordinary transactions of the public?—I say it does not matter. It is no good your saying you require it for your ordinary transactions if you owe a debt. If you owe 5*l.*, it is no use saying "I want that in my pocket to pay a railway fare."

10,464. But is it not actually one of the very last things that would come out of the country? I imagine if there is an adverse balance of trade the people must get rid first of what they least require. That is what it comes to. This currency is one of the things they require most urgently and can least do without?—I do not think it matters what they require urgently. What you have to do is to export your currency until you get a fresh equilibrium. In the export of that currency you may so lower prices that instead of more bullion going commodities go, and you get a fresh equilibrium.

10,465. (*Mr. Keynes.*) In the event of an adverse balance of trade the persons who owe money abroad are a few merchants?—Yes.

10,466. What they try to do is to borrow from their bankers?—Yes.

10,467. If their bankers cannot lend to them they go bankrupt and cannot discharge their liabilities?—Yes.

10,468. The bankers raising their rate to 10 or 12 per cent. does not make the ordinary person in the street go to very great inconvenience to have less currency than he normally requires; the ordinary person in the country is not owing money abroad, and his funds are only available if those people who are owing money abroad can bring such pressure to bear upon him as to induce him to lend it to them?—As I answered Mr. Gillan, I think the money that is in the banks goes abroad, and if more money is required the banks raise their rates, so that loans are no longer renewed and money comes in, but eventually as long as anybody in India owes gold to England it has got to go. I do not say that necessarily the two or three pounds, or whatever it is, that a man has got in his pocket is going, but all I said was if the liability continues it has to go.

10,469. (*Mr. Gillan.*) It seems to me rather a partial view if I may say so, from this point of view, that when a country has got an adverse balance of trade it does not seem to me that it is very different from the position of the ordinary individual with whom things have gone wrong; he has either to increase his output of commodities or he has got to go without other things which he is ordinarily getting, that is to say, imports. In one way or another he has certainly got to square the balance, but my point was that this money which they need for every day transactions is one of the last things that they can do without, and there are a great many other things that they would do without first?—I would be disposed to agree with you generally, because what I think does happen is, when other amounts of gold go, that has the effect of contracting the circulation, prices fall, and that means that commodities can go which could not go before, and securities. I am only saying that, theoretically, you have got to pay your obligations. A position

might arise where you may be able to pay your obligations in some other way, and, if so, then you are relieved from paying them out of your pocket.

10,470. It is not only in money that you meet them—in adjusting the balance?—That is what the adverse balance of trade means, of course.

10,471. Putting your waistcoat pocket money aside now, with regard to the rest you have a reserve with the people?—Yes.

10,472. You have some reserve, on your assumption, with the banks?—Yes.

10,473. You have some reserve with the Government?—Yes.

10,474. Do you gain anything by that dispersal of reserves? I think in answer to the Chairman you quoted from some continental authority who said that he considered that the money which was with the people was actually more potent than the money held in a central reserve?—Yes. I do not agree with that view myself, but I was merely quoting an extreme view in the opposite direction rather on the lines of my thesis. I do not agree with that extreme view.

10,475. To sum it up, it seems to me that there are two views, and I am not quite certain which you hold. One is that probably there will be a natural growth in the gold circulation as the country grows richer, and as you said a higher unit of value is required, and so on?—Yes.

10,476. And you would do nothing to interfere with that growth?—No.

10,477. That is one thing. The other is that this is really a very urgent matter for the support of exchange, and for one reason and another, and that we cannot get on without it, and that therefore Government ought to push it on?—I do not believe in pushing gold in the sense of asking a man to take what he does not want. I think it is the worst way. If it is your object it is the worst way of pushing it. The way of pushing gold is to show anxiety to receive it. If we showed ourselves anxious to receive sovereigns we should get more. As regards pushing gold, I would never do it by asking a man to take it; the way in which you can push gold in the sense of getting more into circulation is by giving facilities, that is to say, cashing sovereigns in silver up-country, and things of that kind, where we cash notes. There are many ways of that kind of making a coin more popular. You will never make a man take a coin he does not want, and it is the worst thing you can do to try.

10,478. But does it come to more than this, that you foresee this natural growth and would do nothing to stop it?—If anything, I would do something to encourage it. I would rather encourage it, because I would reduce the position which we are in of having this large amount of currency which is token. I would rather have that replaced by some currency which has intrinsic value. In other words, I would let people have the silver they want, and I would let people have the gold they want, and what profits I made from the silver they want I would put into the gold and keep my gold. I think the Chairman summed it up pretty clearly.

The witness withdrew.

TWENTY-FIFTH DAY.

At the India Office, Whitehall, S.W

Thursday, November 6, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LAURENCE CURRIE called and examined.

10,479. (*Chairman.*) You are a member of the Council of the Secretary of State?—Yes.

10,480. And a member of the Finance Committee of that Council?—Yes.

10,481. When did you join the Council?—In July 1911. I succeeded Lord Inchcape when he retired.

10,482. I believe you have prepared a memorandum for our use, which we can print?—Yes (*see* Appendix xxxii., page 669.)

10,483. I would like, first of all, to have your views on the question of the management of the balances in England. I suppose we must anticipate that there will for some time be considerable balances?—At the present moment there are only about four millions, which is not much more than the normal. I think there always were between three and four millions before 1908–9.

10,484. That, I think, is the figure which is regarded as the minimum balance necessary for security?—Yes; I believe the Secretary of State does not feel happy if the balances go below that.

10,485. In recent years the balances have been very much larger, have they not?—Since 1909 they been very much larger.

10,486. Owing, I suppose, in the main to the exceptional prosperity which India has enjoyed?—Yes; it is mainly that.

10,487. I think you were going on to say, partly to other circumstances?—Partly, I suppose, to underspending.

10,488. The same causes might produce the same results in the future?—Yes, I should think quite possibly they would in the future.

10,489. It has been the practice for some years, I think, under those circumstances to lend from these balances to certain approved borrowers?—Yes. That has been done, I think, for a great number of years, even before the India Council came into existence. I believe the old East India Company used to do it.

10,490. Does your experience lead you to approve of the practice?—I fail to see what else can be done, unless you leave all the money at the Bank of England.

10,491. Let me ask you first in regard to the present practice. Do you think that the methods used for forming a list of approved borrowers are sufficient, or would you suggest any improvement or change in them?—I think the list comprises all the borrowers who would ordinarily be lent to by the Joint Stock Banks, and all those who would come and borrow money at the Bank of England when they could not get it elsewhere. I think we have got all the large houses.

10,492. I think one of my colleagues on the Commission observed to one of the earlier official witnesses that he himself had been in the City for some time, but that, until recently, he had not known at all of this system?—Yes; I read that. I think it was Mr. Gladstone who made that observation. (Cd. 7069. Qs. 1956–7.)

10,493. But you do not think there are many firms who are equally desirable as borrowers, but who, until recently, have been unaware of the practice of the Secretary of State to lend these balances?—I do not think that can be so, because it is always put in the newspapers.

10,494. (*Mr. Gladstone.*) Of course, I was perfectly aware that the India Office did lend these balances, but I was not aware of the system by which firms were placed on the list?—I understand. Any firm, if it is of sufficient standing, is put on the list. I think the only times when they have been refused are when the firms are not considered to be sufficiently strong.

10,495. (*Chairman.*) What was passing through my mind was this: In recent years the balances have been so high that you have had more money than you could place with the approved list of borrowers?—That has been so.

10,496. Did you take any steps at that time to see whether you might extend the list safely?—I personally was not on the Council at the time when it began, and I do not think at any time since I have been on the balances were quite as high as they were at the time when Lord Inchcape was chairman; so probably that is a question which had better be addressed to him. Looking over the people we do business with ourselves in the City, I find they are very much the same, and I do not think there are firms of any considerable magnitude who are not on the list; certainly if they have wished to be.

10,497. When the balances grew so large that the approved list of borrowers could not absorb them, they were then lent to certain banks?—Yes. The list eventually was seven, I think; but originally it was confined to three.

10,498. What is your view of that process?—I think I have stated in the memorandum (App. xxxiii., page 669) that I thought it was justifiable at the time, but I do not think it would do to make a permanent practice of it.

10,499. You observed in the memorandum that you have submitted that, while you think this was justifiable as a temporary expedient, you would not like to revert to it, and still less to establish it as part of the regular practice?—That is my view. I believe it was Lord Inchcape's intention that it should be quite temporary. It went on, I think, for about three and a half years.

10,500. Would you tell me on what that view is founded?—I think, as a general practice or principle, perhaps it is undesirable for the Government to lend money in very large sums without security. I think, in these cases, they were absolutely safe, but I think, as a general rule, when they can get security it is better to have it.

10,501. Your objection to the practice of lending to the banks, as it prevailed, is the absence of security?—That is one objection. I think another point is that it is, perhaps, rather invidious to choose banks. Once it became publicly known that the India Council was lending in this way, it would become very invidious to keep out any bank, and yet there might be a time when it might not be desirable to have all the banks.

10,502. I quite follow that argument; but does that not apply also to the list of what I may call private borrowers, that is, the list of approved firms?—In their case they have security; so, even at the worst, if something happened to them, we should be left with the security.

10,503. That is quite true; but at the same time I take it that you would not wish to lend, and in practice did not contemplate lending, to everybody who might offer to deposit security?—No. We take great pains that nobody is on the list who we think is at all doubtful. At the same time it always may happen in a time of crisis that even some of the firms who were considered quite good may suddenly be unable to meet their engagements. It has happened twice, I think, and only twice in the history of the Council.

10,504. And then, though the security would be ample, it could not be realised at the moment?—That is so. It was before I was on the Council; but I remember one case was in reference to some people that we ourselves had to do with in the City.

10,505. Having regard to that, is it not true that you have to exercise the same kind of selection with reference to the firms which you will take, as you do with reference to the banks which you will take?—Yes; but I think it would be very difficult if you had the banks and it was known you were lending to them, not to have, for instance, all the clearing banks on the list—it would be practically rather a slur if you did not. Yet there might come a time in regard to one or more of them when there might be reasons for not keeping them on our list, and then if you withdrew them, it would certainly be very damaging indeed.

10,506. I gather from what you say that you feel the whole responsibility is rather a difficult one to discharge?—Yes.

10,507. Or perhaps I should rather say an invidious one?—I think in the selection it would become very much so.

10,508. Have you ever considered in these circumstances whether it would be possible to relieve the India Office of a task (I do not wish to be thought to be criticising it at this moment) which is certainly invidious and difficult, and to transfer it to some other authority?—Such as to a State bank?

10,509. In the first place, I was going to suggest the Bank of England. Would it be possible to employ the Bank of England to do the work which is now being done by the Finance Committee through their broker?—Of course they do part of the work now; they look after the securities.

10,510. Could they look after the lending?—I dare say they could, but they would probably make a considerable charge for it.

10,511. Do you think it would be more expensive to do it through them than it is at the present time?—I should imagine so. It could no doubt be done in that way.*

10,512. I will not at the moment refer to your suggestion about the State bank, but I may come back to that later. In regard to the expense of this financial arrangement, has the broker's remuneration been under review in your time?—No. I have read the evidence which was given by Mr. Scott, and also by Mr. Badock on that point.

10,513. What is your own feeling?—My own feeling is that it is not excessive. Of course, he appeared to get a very large sum in those three years, but he had a good deal to do for it, and I do not think you could pay very much less to anybody who has got to do that sort of work. You see Mr. Scott belongs to a firm who make very considerable profits, and this part of it is only a comparatively minor part of the firm's profit, although it takes up practically the whole of Mr. Scott's time.

10,514. I see that he belongs to a firm which is engaged in other business?—Yes.

* *Note by witness.*—I doubt whether the Bank would care to undertake this work as it would at certain times compete with their own operations. In any case I am convinced that it would prove very much more expensive than the present method. The Bank would hardly charge less than ¼ per cent., and, taking the amount lent on the market in 1912–3, this would work out, approximately, at 35,000*l.*, as compared with something under 9,000*l.* paid to Mr. Scott.

10,515. I understand that he joined the firm—I think we had it in evidence—on the requisition of the India Office?—Yes. I imagine that was because it was thought desirable that he should be in a firm who, when we brought out loans, would be able to assist the Council both with advice and in placing them.

10,516. Does not that place him in rather an invidious position?—I have not heard that he has found it to be so. Do you mean that he is supposed to serve two masters, or what?

10,517. He has got Indian money to place, and his firm perhaps have new issues to place. Again, I must guard myself; I do not want you to think that I have in my mind for a moment that anything improper in that respect has taken place; but does not that put him in the same kind of invidious position which you feel the India Office is in if it has to select amongst banks?—We do not lend on Stock Exchange security; we lend on what are called floaters, so he would not be able to do anything very much if he wished. Any good firm who wished to borrow on what is called floaters could borrow. I believe it is not alleged that Mr. Scott ever favoured any one firm more than another.

10,518. I entirely agree; I have heard no suggestion of the kind. What I felt was that Mr. Scott himself, just like the Finance Committee of the India Council, was placed in a position in which wholly unjust suspicions might arise, against which it would be very difficult for him to defend himself?—I do not think that has really ever arisen. I have never heard in the City any complaint of the way that he has done the work. I think that occasionally he has not got perhaps quite the best rate, but that is quite a different story, and has nothing to do with favouring any one firm.

10,519. When I suggested that this work possibly might be done by the Bank of England—and I made the suggestion, not because I thought there had been any great abuses in what has happened, but because I think it is desirable to guard the Government and Government officials against even the possibility of suspicion—you said, I think, that the Bank of England might do it on terms, but their charges would probably be high?—Our experience of the Bank of England is that their charges are not generally low.

10,520. They do a good deal of business for the Finance Committee?—Yes, they do; and I do not think the charge they make is unreasonable.

10,521. Do you think the actual charge reasonable for the work that they do?—The balance has not increased of late years, and of course the work has increased very largely. The only charge perhaps that is rather high is the charge they make for printing the currency notes; I do not know whether you have had any evidence on that?

10,522. No?—That does not, I think, really come into this point, but we are at present engaged in asking them to reduce it.

10,523. As regards the class of securities on which you lend, do you think any changes are desirable there?—I have said in the memorandum (App. xxxiii., page 669) that if it became so large an amount that we could not lend it on floaters and Indian railway debentures, it might be desirable to take what they call bank bills; that is, such bills as the Bank of England would discount on the market or would lend on.

10,524. Is that a security which with your present financial organisation you are well equipped for judging of?—I think we should throw the onus on the Bank of England in that case. At present they have to see that the security is all right, and we should tell them only to take such bills as they would take themselves.

10,525. At the present time you lend only on securities inscribed at the Bank of England?—That is so.

10,526. And you do not lend on any securities inscribed at any other bank?—That is so. That is really for the convenience of the Bank of England, and it would rather complicate the work not to do that. I think Mr. Scott has explained the case on that point.

10,527. We did examine him on that point, and I would like to pursue it a little further with you, if you do not mind?—There is absolutely no objection, I think, to lending on other securities, such as those that are inscribed, for instance, with the London County and Westminster. The only difficulty, I suppose, would be to get the security communicated to the Bank in sufficient time in the afternoon for the Bank to be satisfied it was all right.

10,528. Would not a letter from the bank where the security was registered, stating that it was transferred into the names of the nominees of the India Office, be a sufficient guarantee for the Bank of England?—I suppose it would if you could get them to sign it. I do not know whether you could get bank managers to write such a letter; if all their customers asked them to do that it might be rather arduous. It has got to be done at once, you see.

10,529. I should have thought the India Office was a sufficiently important customer to have some attention paid to its wishes?—It is not a customer of the London County and Westminster, except that it sometimes has deposits there.

10,530. At any rate the difficulty would not arise in the India Office?—I think it would arise in the Bank of England. I suppose they would take as a matter of course a letter from the London County and Westminster, but that really is a point on which you would have to ask the Bank of England officials, I think, and ascertain how they would propose to deal with it. As I said, there can be no other objection as regards the security. It would not very much widen the number of stocks, though.

10,531. You yourself suggest in your memorandum (App. xxxiii., page 669) that if the balances did rise very high again you might extend your list of securities to bank bills?—Yes.

10,532. And you say that in practice it would probably be found desirable to restrict the loans against bills to the two discount companies and to two or three of the larger firms?—If you only took a certain quantity of them, I think it would probably be better to do that.

10,533. Do you not think that would involve the India Office in new criticisms or suggestions of partiality or favouritism?—I should not have thought so, but if it were thought desirable we could take a third from any of the smaller firms as well. I do not think there would be any great objection to that, and it probably would work out in that way.

10,534. Now I will turn, if I may, from the balances in London to the balances in India. You yourself are not inclined to favour the loaning out by the Government in India of their surplus balances?—It struck me that it would be better to loan from the Paper Currency Reserve, because then it would be less likely to fluctuate. I think it would be undesirable occasionally when balances are low, if you once began lending, to have to draw back.

10,535. Therefore, if any such assistance is to be given, you would prefer it to be given from the Paper Currency Reserve, on the ground that it would be a more stable and less uncertain source?—Yes. I do not think if the balance is very high there would be any objection to the other; but it would be unfortunate if, having once started it, they had to withdraw it.

10,536. I understand you see no objection to moderate loans from the Paper Currency Reserve?—None at all.

10,537. That might involve, and would involve, I think, some alteration in the present law?—Yes; I think it could not be done at the moment.

10,538. At the present time the fiduciary issue, I think, is of a certain fixed amount?—Yes.

10,539. What is your proposal? Is it that the law should be varied, so that a portion of the existing fiduciary issue should be issued against some form of securities that would give relief to the money market; or is it that we should increase the fiduciary issue?—I think they now hold in the Paper Currency Reserve a considerable number of securities, and I say, instead of holding those securities, I should lend if it was thought desirable to do so.

10,540. Do you think the time has come when the total amount of the fiduciary issue might be reconsidered?—I have not really considered that point.

10,541. As regards the Gold Standard Reeerve, you have expiressed the opinion that it should be held mainly in London?—Yes.

10,542. And you give as a reason for that, that it is in London alone that it can be used?—Yes, I think that is so.

10,543. I presume your meaning there is that it exists for the purpose of maintaining exchange?—Yes.

10,544. And that if an exchange crisis occurs, it is in London that it would be wanted?—Yes, otherwise you would have to ship the gold from India, which seems rather an expensive operation.

10,545. You support the policy adopted in recent years of accepting short-dated securities rather than making permanent investments in stock?—Yes.

10,546. And you would like to go further, and sell the irredeemable stocks by degrees?—I think I should as occasion offers.

10,547. Even if some loss were entailed in the present?—I am afraid it is inevitable that there must be some loss.

10,548. Have you formed in your own mind any idea as to the total amount which ought to be held in the Gold Standard Reserve, or as to the standard which ought to govern that amount?—Do you mean the total of the Gold Standard Reserve altogether?

10,549. In the first place, I mean the total of the whole Gold Standard Reserve in whatever form it is held?—The present limit is supposed to be 25 millions, but I think it might quite well be somewhat higher than that; and I should be quite ready to see rather more gold than five millions.

10,550. I would like to come to the question of how much is held in actual gold a little later. First, as regards the total amount, what, in your mind, are the conditions which govern the amount at which the Gold Standard Reserve ought to stand?—Primarily, the amount that might possibly be needed for exchange.

10,551. At what do you think that should be fixed?—We have only got a limited experience as to what might be required, and it must be a matter, I think, rather of guesswork.

10,552. I quite agree, but let me try and make my exact point a little clearer. Some of the witnesses who have come before us seem to think that the amount at which the Gold Standard Reserve ought to stand corresponds in some rather direct and immediate way to the number of rupees in circulation; while other witnesses hold that the amount of the Gold Standard Reserve should really be dependent rather on the circumstances of Indian trade, and the possible adverse balance which might arise in that trade?—I think the latter view is certainly the one I should favour.

10,553. Therefore, as trade expands and the possible difference grows greater, you would like to see the Gold Standard Reserve increased?—Yes.

10,554. In the same sort of proportion?—Yes; I think as the country grows richer it can afford it.

10,555. Now as regards the actual gold, have you formed in your own mind any standard as to the amount of actual gold to be held?—I should think the proportion probably that we have now is about right; we have about a fifth of the Gold Standard Reserve in gold.

10,556. Do you think that would be sufficient if you had got it?—I think if the reserve were about 25 millions, if the actual gold were a fifth or possibly something between that and a fourth, that would be sufficient.

10,557. Suppose the total reserve to be 25 millions, and you held from a fifth to a fourth in gold, that would be from five to six millions?—I think that would be quite sufficient, if the rest was in loans against securities or in short-dated securities which would be at once realisable.

10,558. That recommendation then, in your mind, connects up with the other recommendation, that the irredeemable stocks should be gradually disposed of?—Yes. I think what you really want is to have it quite liquid, and whether it is actually in gold or in securities which may be at once realisable is not very material. Of course, if you held a great deal of gold it is rather wasteful.

10,559. On the other hand, I suppose you would agree that if such a reserve is maintained at all, the first requisite is that it should be sufficient to give you real security?—Yes, certainly.

10,560. And that it would be a penny wise and pound foolish policy to run after interest before you have got that security?—Quite so; but I do not think if you have short-dated securities you are really running any great risk.

10,561. Turning now to Council bills, I think you approve generally of the policy prevailing in regard to the sale of Council bills?—Yes.

10,562. I think you refer to Mr. Abrahams' evidence on this point in your memorandum, and practically accept it as your own view?—Yes; I do not think there is anything there to add.

10,563. You say in your memorandum, at the conclusion of paragraph 6, (App. xxxiii., page 669) which deals with this question, that any restriction of the sale of these bills would hamper Indian trade and bring about an unnecessary export of gold from this country. Some of the witnesses who have come before us have desired to see the sale of bills restricted for the very purpose of bringing about an export of gold?—Yes; but when it gets there it does not appear to go into circulation.

10,564. That is a point I wish to come to; I want to ask you what you think would happen to the gold if, by refusing to sell Council bills, you force this export to be maintained?—Probably all that would happen would be that it would not go into circulation.

10,565. Would it be tendered at the Government offices for exchange into rupees?—For the most part, if used at all, it would be used in that way, and then we should have to buy silver in this country to replace it.

10,566. And eventually to ship the gold back at your own expense?—Yes.

10,567. You are not at present in favour of coining gold in India?—No; I do not think there is a demand for it, at least not a serious demand, and the sovereign appears to be an extremely good coin for circulation.

10,568. Some of the witnesses who have come before us have, of course, called our attention to the recommendation of the Fowler Committee in that respect, and they have appeared to think that it was the necessary concomitant of a gold currency; do you think that is so?—That you should have a gold coinage?

10,569. That you cannot have a gold coinage without a gold mint?—I should not have thought that was necessary.

10,570. Experience in South Africa, for instance, does not bear that out?—No.

10,571. Do you think it is in the interests of India to press the circulation of gold?—No, I think if they want it they will take it, and if they do not they will not.

10,572. In so far as one form of coinage is better than another, do you think gold is better than a token coinage in silver or in notes?—I do not think it makes much difference as long as the trade of the country is good.

10,573. Token coinage will be the more economical?—Token coinage will be certainly more economical.

10,574. I suppose, and this has been the view of our witnesses, we are very far from the time at which under any circumstances gold will be the prevalent medium in India?—I imagine so. All the transactions are so small over the greater part of India that gold would be much too large to be the actual medium; you want a rupee there instead of a sovereign.

10,575. In the meantime, would you be inclined to say that, provided it was adequately secured, it was not of much consequence what the coinage was in India if the exchange was firmly maintained?—Yes; I think it is best to keep the coinage which the people have been used to.

10,576. Under present circumstances, will you tell me how you think gold can best be used for the maintenance of exchange?—Suppose Government had

it in its power by various means which it could use, either to put five millions of gold into circulation, or to draw five millions of gold into their reserve, which would be most effective for the maintenance of exchange?—They could not very well get it into circulation, I think; I do not think that is possible.

10,577. Do you mind for the moment assuming that it was possible for them to persuade the people to take it?—I do not think any great advantage would be gained, even if it was so.

10,578. When is gold most useful for the maintenance of exchange—if it is in circulation or if it is held in reserve?—I think if it is held in reserve.

10,579. Now I come back to one question which you just touched upon in an answer to me, and which I think is the last I want to raise with you; do you care to express any opinion about the suggestion of a State bank?—I have thought a good deal about a State bank, but I did not say anything about it in the memorandum because it was written some time ago, and before the question had come up. Unless there is a very strong demand for it in India, I think it would be rather a mistake to establish one.*

10,580. Perhaps you would develop the reasons for your view a little?—I do not think the bank itself would probably prove as a bank as effective as the Presidency banks are, because it would have to be somewhat hampered by Government control, and that would probably result in its not lending, I should think, as speedily as the Presidency banks do now.

10,581. I do not know how far your own experience would make you feel competent to answer the question I am going to ask, and if you prefer to say that you have not sufficient knowledge I will take that as the answer: do you think that India is adequately banked at the present time?—I do not know enough about it at the present time to say. But I do not know that a State bank would add much to banking facilities.

10,582. There is one further question I should like to ask you: Until you joined the India Council, you had never been connected, I think, with the Civil Service in any official capacity?—No, not at all.

10,583. When you joined it, what was your general impression of the way in which the Civil servants in India or at home carried out their financial duties, in the light of your experience of the way in which financial duties are performed elsewhere?—Do you mean the management of the balances in connection with the Bank of England?

10,584. I did not put my question very clearly: You would claim without previous official experience to bring a business man's experience to the management of business concerns; judging as a business man, what did you think of the business capacity of the administration both here and in India?—In regard to India, I only saw what you see in the office here, but I should have said that Government Departments take longer about their business than an ordinary business house takes. I think the work here is very well done; but I cannot say perhaps that it is done with quite the same celerity as it would be done in a bank or in a merchant's office.

10,585. On the whole, do you think it is well done and thoroughly done?—Yes. Of course, there is a great deal of detail, and a great many papers which have to go through several committees, and probably that entails more delay than is absolutely necessary.

10,586. Apart from the criticism that it takes longer, which is no doubt true, because Government offices have to keep a record of a much more elaborate kind than a private firm, would you make any general criticism of the management of Indian finance as you have seen it in the India Office?—No; I think it is done with very great care. Beyond perhaps the length of time, I do not think it could be improved.

10,587. One criticism has, of course, come to our notice more than once—that is the suggestion that those who are responsible for Indian finance in the India Office are thinking much more about London than about India?—I do not think that is a very fair criticism, but it has been certainly made. There is one point I should like to mention. It was alleged that these large balances which were brought over here were brought to ease the London money market and to please the London bankers. As regards the London bankers, it would certainly have been much more advantageous to them to have been without these large balances, because then money would have been more valuable and rates would have been correspondingly higher.

10,588. (*Lord Faber.*) I think you have told us that there are only about four millions of balances in London?—I believe that is so at the moment.

10,589. What has become of the big balances that were afloat at the beginning of the year?—A good deal has been used in purchasing silver. We had to buy over three millions of silver, I think. Then a good deal has been employed in buying stores. I cannot give you the exact details.

10,590. I suppose they have been used in place of the loan which is generally issued at the beginning of the year, and which was not issued this year?—Yes. We had no loan; I should also mention that fact.

10,591. Now as to the currency reserve, I think you said that you would be disposed to sell part of the securities in that reserve, and to lend the money to banks; am I right in that?—Do you refer to the Paper Currency Reserve in India.

10,592. Yes?—I think if we thought it desirable to lend to the banks in India at all, that would be a better way of doing it than lending on the balances.

10,593. You say you would sell the securities of the currency reserve; would you invest that money permanently with the banks, or lend it, and, if so, for how long?—You would probably only lend it for about half a year.

10,594. The Paper Currency Reserve would lose a good deal of interest, would it not, by lending for half a year to the banks, and then having it thrown back on them?—Yes; but we get 3½ per cent. on our rupee paper, and as we would get nearly 7 per cent., the loss on these loans to which you refer would not be very big, and it would probably be balanced by the advantage to trade,

10,595. Your point is, is it not, that by lending your money to the banks, you would get as much money in half a year as you do for the interest on your securities now?—Yes, I think that would probably be the case. I do not think there would be any harm in lending a small amount from the balances at present, but I should be averse to lending a large amount, for the reason that you might have to reduce it at any time.

10,596. In regard to the Gold Standard Reserve, do you consider it wise to sell irredeemable securities, say Consols, now after they have had this very heavy fall?—I do not feel any certainty that they will not have a further fall.

10,597. But we are getting to a safer basis, are we not? We are getting 3*l.* 10*s.* from an investment in Consols now as against 2*l.* 12*s.* 6*d.*, the return when the fall started?—Of course, the lower they go the safer you will be; but I am afraid that in case of a European war we should see them very much lower.

10,598. I suppose that in the case of a European war even the short-dated securities which the market favours now would not be certain to be paid when they were presented?—I imagine they would always be paid, but they might have to be renewed at a very high rate. Somebody else would probably take them on, but I think you would always be able to sell these short-dated securities.

* *Note by witness.*—I hope that a State bank would not be established until it is certain that there is a real demand for it in India. I doubt whether it would prove as efficient as the Presidency banks in their respective localities. I do not think that it would do the business of selling Council bills or the work done in London by the Bank of England any better, and I feel certain that it would prove vastly more expensive.

If a State bank should eventually be decided on, I think it should be modelled as far as possible on the Bank of France, which has in numerous great crises proved such an admirable institution. The dictum of its founder might well be borne in mind. "I wish the bank to be sufficiently in the hands of the Government, and yet not too much so."

10,599. It is rather a new security, is it not, in our market, having regard to the extent to which these short-dated securities are carried now?—Yes. Of course, we have got some South African bills amongst others.

10,600. And you have a great deal of first-class short-dated stock from the United States?—Yes: there is that on the market, but the India Council does not hold this stock. I am talking for the moment of what the India Council have got; we have some of the colonial short-dated securities, and we have, of course, Exchequer bonds and Treasury bills.

10,601. I am not certain in my own mind—I may be wrong here—that it is at all certain that a colonial security will be paid when it falls due, having regard to what I have seen lately. I do not believe they have all been paid, but, as you very rightly say, they have been replaced by other securities or by a new security carrying a higher value?—I do not think any holder has any difficulty in getting the money for them if he wants it. They have been replaced by others, no doubt, but then those others have a higher value, and that tempts the public to take them.

10,602. Arguing on that line, I suppose you would say that you would always be able to sell Consols?—You will always be able to sell them at a price, no doubt; but it might be at a very great sacrifice.

10,603. (*Sir Ernest Cable.*) I think in answer to the Chairman you said that Mr. Scott did not always get as high a rate of interest as he might have got on the loans?—That is what has struck me, and I have once or twice talked to him about it. Of course, he has had very great difficulties when he has had very large amounts to lend, because he has not been in the position of a banker who can say, If you will not take this lot we do not care; we will sit upon the money. His instructions from this office have always been to lend, and not leave more than half a million at the Bank of England. I think that occasionally that practice might have been varied with advantage, but that has been the rule here always, and they have not at present seen their way to depart from it.

10,604. If the loans were made through a bank, either through a State bank or through the Bank of England, you think you might secure higher rates of interest?—I do not feel certain that the Bank of England would always get the best rate if they did the lending.

10,605. (*Mr. Gladstone.*) You referred to there having been no issue of sterling loan this year; I think the rupee loan which was issued in India was larger than usual?—Yes, that was so.

10,606. Have you considered the feasibility of borrowing much more freely in India than has been the practice hitherto?—The Government of India has been asked to do that more than once since I have been on the Council.

10,607. At the present moment money can be borrowed on more favourable terms in India than in England, I believe?—Yes. The India rupee paper is, of course, 3½ per cent.

10,608. And there is much more disposition on the part of the natives to invest in, for instance, railway stocks?—Yes. I should hope that it will become more and more possible to borrow in India. It obviously has a great advantage, not only from the fact that it relieves this market, but also it is much more strengthening to the country to have a great holding itself.

10,609. (*Mr. Keynes.*) We have had evidence that the broker is very seldom allowed to lend for longer than four weeks; is that a wise arrangement in your opinion?—I think that probably it is, on the whole, a good thing. We do not want to lock up our money indefinitely, as we might otherwise be reduced to borrowing at the Bank of England if we were found to be short.

10,610. That would be very unlikely, and it would not be a very desperate contingency if it did happen?—I think it would be less likely when the balances are over nine millions than when you have only got four millions.

10,611. Even when they were over nine millions there were not loans for more than four weeks?—Except, of course, to the banks, which were, I think, for two months. You could not get a very much better rate of interest than we get, taking the year all round.

10,612. Is it not the experience of bankers that on the whole the longer they can lend the money the more favourable the terms they can get?—It is so, of course, in certain times of the year, but not, for instance, at the beginning of the year.

10,613. If you are going to lend money for three months, to lend it in three instalments of four weeks each would be less remunerative than to lend it for the three months right off. It may be the case that the rate you may get for the first four weeks will be higher than what you may get for the whole three months, but when you have not only a second period of four weeks but a third period of four weeks, that brings the figure down. Would you not get more if you lent it for the three months right off?—That would not always be the case.

10,614. But there would be a likelihood of it?—I should think as a rule that would probably be the case, but, of course, we do not want at any moment to find ourselves short and obliged to borrow from the Bank of England, because that would be a very unprofitable business.

10,615. We have been told that the Accountant-General, when he is making a loan, goes on the hypothesis that there will be absolutely no receipts from Council bills whatever; is that not excessive caution?—That certainly has been the practice, and I should say it is very rigid financial virtue to take that line, but it errs, perhaps, on the side of prudence.

10,616. It is always the case, is it not, that, when the demand for Council bills falls off, it falls off as a rule gradually except at a time of great crisis, and of that there is a few weeks' warning?—Sometimes it falls off very much more suddenly than we expect; it certainly did last year. I think in February or March it fell off rather rapidly.

10,617. The Accountant-General's rule is of a cast-iron nature, is it not? It might be of useful application sometimes; but there must be times—for instance a month ago, say—when it must be exceedingly unlikely that there would be no receipts from Council bills whatever?—I do not think a month ago we had very good balances.

10,618. But on any occasion like that, would not this cast-iron rule work badly?—I think there would be no harm in modifying it.

10,619. You do not think it is a necessary rule, although it would be sometimes wise to act as if it were the rule?—It errs on the side of caution, as I have said, and I do not think it is absolutely essential. Do you think we could get on the average a better rate by lending for longer periods?

10,620. I should have thought that to be absolutely certain?—I think certainly in the days when we had the nine millions, it would have been desirable, and of course that practice was followed in the case of the banks.

10,621. This is an illustration, is it not, of the sort of cast-iron rules that are necessary when you have these things done by Government Departments?—I think possibly if any individuals were doing it, not through a Government Department, they would very likely do it in that way, just as a bank would.

10,622. With regard to the Gold Standard Reserve, on the question whether Consols or short-dated securities should be mainly held, I think you included under short-dated securities, securities which are payable within four years, did you not?—Yes, four years was the maximum, but I do not think we have at any one time a very considerable number of them.

10,623. In that event, a security payable four years hence would not be more saleable than Consols, would it?—I think it would be. I think anything that has a fixed date of payment would be saleable. That certainly has been the case within the last three or four years; when money has been tight, you could

always sell things with three or four years to run at a very much more favourable price.

10,624. I do not think this is a thing that can be answered from past experience because, as Lord Faber has pointed out, these securities are new things, and there has been no crisis since they were started?—People have always been able to get rid of them.

10,625. Have they always been able to sell quantities?—Yes, without dropping anything, or getting low prices; whereas if anybody were to sell a million of Consols, that would certainly in the last three years have lowered the price.

10,626. If the rate of interest is going on rising over a term of years, Consols will go on falling, whereas short-dated securities will not?—That is so.

10,627. If you had had to realise Consols last year, you would have lost, would you not, because of that long-period movement?—Yes.

10,628. (*Lord Faber.*) If, as Mr. Keynes said, you had to-day to sell half a million of Consols, or half a million of four-year colonial bonds, I do not think you would lose more, would you, by the sale of Consols than you would by the sale of the four-year colonial bonds? You would drop Consols perhaps a half per cent., but no more?—Possibly so.

10,629. And you would have to drop more than a half per cent. on the others?—We should not, probably, have half a million of any one of the four-year bonds. The majority of our investments I think are quite short.

10,630. One is swayed by what has happened to Consols in the past, and not by the sale value to-day, I think rather?—That is so.

10,631. (*Mr. Keynes.*) Also there is another possibility: Other Governments, I think, which hold securities of this kind in reserve, only raise money on them, and do not sell them outright in the market. They pledge them to the Bank of England or some other institution?—We could always do that, if necessary.

10,632. If you had to do that, would it not be much easier to do it with Consols than with other securities?—Not with Exchequer bonds or Treasury bills.

10,633. No, but as against colonial securities?—I do not advise going entirely for colonial securities; I think that would be most undesirable. I think a very small proportion of ours are colonials; the majority of them are Exchequer bonds and Treasury bills.

10,634. You have expressed rather a feeling against Consols, and I was suggesting that this prejudice against Consols was due partly to the fact that they have fallen over long periods of time, and partly to the assumption that the Secretary of State, having to raise money, must sell out?—He would not necessarily sell out in a time of panic.

10,635. If he did not have to sell out, he ought to have that sort of security which he can most easily pledge?—Yes, and Exchequer bonds and Treasury bills would be quite good.

10,636. They are no doubt excellent, but there is a very limited supply of them?—That is so.

10,637. After them would you not say that Consols would take the first place?—If you do not want to realise them, certainly I think so; but every year you are likely to make a further loss on them, at least that has been the experience of the last five or six years.

10,638. If you act on that hypothesis you are, as it were, putting your opinion against that of the market. The market price at any moment reflects the general opinion on that point, does it not?—In the case of Consols.

10,639. You are saying practically that Consols are dear at their present price, and putting your opinion on that point against the opinion as reflected in the market price?—I do not quite follow you. Do you mean that the opinion of the market is that they are too dear?

10,640. If the general opinion is that Consols are going to fall in value, that would be reflected in the present price; it is only when they are going to fall more than people would expect that it would be disadvantageous to take them at their present price?—I see what you mean. There certainly is a danger of their falling, whereas there is no danger of Exchequer bonds and Treasury bills falling.

10,641. Could you compare Exchequer bonds and Treasury bills with other securities?—I should not advocate taking a large number of Colonial securities, but I think a moderate amount are less likely to fall in the long run than are Consols.

10,642. When speaking of loans from the Paper Currency Reserve you suggested, I think, that the Presidency banks might be prepared to borrow on the security of the Government paper for at least half a year at 7 per cent.?—I did not say that, but the average rate would be something considerably over 3½ per cent., would it not?

10,643. It would be nothing like 7 per cent., would it?—At times it would be 7 per cent. when the bank rate was 8 per cent.

10,644. But it would be nothing like 7 except on very exceptional and famine occasions?—What I ought to have said was that I imagine you could get through the whole year probably something equivalent to 3½ per cent., though in some parts of the year they would lend at 3 per cent. But I do not know enough about it to speak exactly.

10,645. There would not be any advantage to anybody concerned, would there, unless you increased the fiduciary portion?—Is it not the case that the banks at times would like to have loans from the Government?

10,646. No doubt; but your suggestion comes to the Government selling some of its present securities to the banks, does it not?—Yes.

10,647. And then lending against those securities to them?—Yes.

10,648. That leaves the total position very much as it was, does it not?—Yes. I think it might probably be better to increase the fiduciary issue instead of doing that.*

10,649. (*Sir Shapurji Broacha.*) You say that out of 25 millions in the Gold Standard Reserve one-fifth in actual gold would suffice to maintain the standard of exchange?—I think one fifth would probably be enough.

10,650. That is your view as a banker?—Yes.

10,651. The banks in London, I believe, now are asked to hold in cash 20 per cent. of their total liability, and I think that would be the advice of a banker, to hold five millions in gold out of 25 millions of total liability?—The Government is not in quite the same position as a banker.

10,652. Do you know that this 25 millions is only about 20 per cent. of the total liability—that it is part of a larger liability? In view of that do you think this five millions would suffice?—I think in time you might get a larger amount, but I should not suddenly go and turn it into gold.

10,653. If there was a crisis in London, and a crisis in India, and gold was wanted, do you think you would be able to sell off your securities and to realise 15 or 20 millions in gold at once? Would you not be burdening your London market at the same time?—I am afraid you would be burdening it, but I think that is inevitable, whatever you do.

10,654. So far as India is concerned, you do not care for the market?—I do not think India ought to be entirely governed by what is convenient to our London money market.

10,655. You wanted in the last crisis something like 15 millions?—Yes, I think it was something like that.

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* *Note by witness.*—On further consideration I am inclined to think that the result indicated by Mr. Keynes would only be temporary, and that as soon as the securities became absorbed by the investing public the proceeds of their sale would, if lent out, bring relief. Perhaps a more serious objection is that the sale of any considerable quantity of rupee paper by the Indian Government would make it more difficult to bring out fresh loans in India; but I think that, if the sales were effected gradually, this would not necessarily be the case.

10,656. If there had been a crisis in London, would you have been able to realise that unless you had come down in price?—I expect in the last resort we might have borrowed from the Bank of England.

10,657. Do you call five millions an absolute security for the Government?—I think what I said was that a fifth of the gold reserve, whatever the total amount was, I should advocate keeping in gold. I think that when the reserve increases, the amount of actual gold should increase too. I do not think you can keep enough for any possible contingency that might arise; what you have got to keep is for what is probable.

10,658. I suppose it is with the idea of saving interest that you say that out of 25 millions only five millions should be in gold?—Of course interest every year adds to the gold; all the interest is now accumulated in gold.

10,659. The crisis will come one day, and we have to secure ourselves for that one day. What will you want then for the support of exchange?—I should have thought it was enough for any probable contingency that is likely to happen.*

10,660. (*Chairman.*) It has been suggested to us by some witnesses that the effect of holding the Gold Standard Reserve money here in London is to reduce the amount of gold which London's bankers keep to meet London needs, and that therefore the gold held here is, as it were, discounted by the London market. I should like to have an expression of your opinion, speaking as a banker, on that suggestion?—I do not think that is so at all. I do not think we pay any attention to what is held in the Gold Standard Reserve.

10,661. Do you consider that whatever the gold reserve of London is, be it sufficient or insufficient, it is wholly independent of what may be held here on account of India?—Yes. I certainly think that is the view a banker would take. I do not know whether Mr. Cole was asked that question, but I think he certainly would have said that was so.

10,662. I think we did ask him, and I wanted to ask you also?—I do not think in the London money market it is considered at all. Probably a good many people would not know what was in the Gold Standard Reserve. I do not think they really attach any importance to it

* *Note by witness.*—In replying to this question, I might have mentioned that the gold in the Paper Currency Reserve, or at any rate a considerable portion of it, might be utilised in case of emergency. I believe that this has already been pointed out by previous witnesses. Sir Shapurji Broacha appeared to think it desirable that the Gold Standard Reserve should be held entirely in gold. Apart from the effect that the locking up of so large an amount of gold might have upon the Indian money market and indirectly upon Indian credit, it seems to me that this would be to prepare for a contingency which is never likely to arise. If it ever did arise, it would be of so appalling a nature that no amount of gold which the Secretary of State could hope to obtain would suffice for his requirements.

The witness withdrew.

The LORD INCHCAPE, G.C.M.G., K.C.S.I., K.C.I.E., called and examined.

10,663. (*Chairman.*) You were for many years, I think, a member of the Secretary of State's Council?—Yes, for over 14 years.

10,664. For part of the time you were Chairman of the Finance Committee of the Council?—For about five or six years, I think.

10,665. When did you cease to hold that position?—When I retired in July, 1911.

10,666. Since then I think you have had no official connection with the India Office?—No, none whatever.

10,667. May I ask you first some questions about the Secretary of State's surplus balances? It has been the practice to lend those on the market against securities, has it not?—Yes, that is so.

10,668. That, I think, was a practice which had your approval?—Yes.

10,669. Would you tell me how the business was ordinarily carried out?—The broker was in touch with the Accountant-General as to the amount of surplus balance he had, and he arranged with him as to the amount to be lent out and as to the time of repayment. It was done through Mr. Scott for the last few years.

10,670. In the first place, in arriving at the amount which could be safely lent, we have been informed that it was the practice deliberately followed by the Accountant-General to exclude from his calculations any possible receipts from Council Bills?—In estimating for his requirements?

10,671. In estimating, I would rather say, his surplus balance after meeting his requirements; that is to say, he always keeps sufficient in hand to meet his needs quite apart from any sum he might secure by the sale of Council Bills?—Yes, he did.

10,672. Was that a necessary precaution?—It was slightly over-cautious, I think; but India did not suffer by that, because, assuming that he got half a million from the Bank of England by the sale of Council Bills on a Wednesday, that was immediately lent out; so there was no loss of interest by it, only he would not allow the balances to be lent out repayable at dates that would have been inconvenient to him if the sales of Council Bills had not gone through.

10,673. There was no fixed day in the week on which these loans were made to the market then?—No.

10,674. He would lend whenever he found himself able?—The moment he found that he had more than half-a-million at the Bank of England, which is the standing free balance, it was lent out in the market immediately.

10,675. As far as you have explained, the transaction was one which was made on the joint responsibility of the Accountant-General and the broker?—Yes, with regard to the loans to the market.

10,676. Did the chairman have no responsibility in that matter?—The Finance Committee had a memorandum of the loans made placed before them every week.

10,677. But that was after they were made?—Yes, after they were made. The lenders were approved by the chairman of the Finance Committee under the orders of the Secretary of State; that is to say, when I became chairman, I found a list of lenders, with the maximum amount to which they might get loans, and that list was to some extent altered once or twice. When I heard, or the broker heard, that there might have been a change in the partnership and money taken out of the firm, the amount to be lent to them might be reduced; for instance, if they were on the list to the extent of 50,000*l.*, it might be reduced to 30,000*l.*, or if they were on the list to the extent of 200,000*l.*, it might be reduced to 150,000*l.*, or perhaps 100,000*l.*

10,678. That change, I understand, was made on the responsibility of the chairman of the Finance Committee?—Yes.

10,679. And under the orders of the Secretary of State?—Yes. Whenever applications to be put into the list came to the broker, they went to the Accountant-General, and were referred by the Accountant-General to the chairman of the Finance Committee, who made suitable inquiries as to the financial standing of the firms who were applying, and he either accepted them or rejected them—also under the orders of the Secretary of State.

10,680. Was it generally known among firms in the city eligible for the list, that they could apply?—Undoubtedly.

10,681. And how to apply?—Undoubtedly.

10,682. Did you have many new applications in your time?—I think something like five or six, and I

think during Mr. Le Marchant's time he probably had the same number. It was quite well known. On one or two occasions the capital was not considered quite sufficient, and they were rejected; then they would come along later showing that the capital had been increased, and they had got into a better financial position, and so they would be put on.

10,683. I understand that if a new firm was placed on the list by the authority of the chairman of the Finance Committee, or if any alteration was made in the way either of expanding or of diminishing trade in the case of a particular firm, that would be reported?—It was reported every week.

10,684. To the Finance Committee?—Yes, it was laid on the table and reported to the Finance Committee.

10,685. And similarly, when the broker dealt with any firm which was on the list, he would report his transaction after it was made?—Yes.

10,686. The instructions to the broker, I believe, in every case fixed a limit beyond which he was not to go with a particular firm?—That is so.

10,687. Therefore, unless he absolutely disobeyed his instructions——?—That he would never do.

10,688. I did not wish to suggest it; but it would be only by disobeying his instructions that anything could happen which had not been previously sanctioned and approved by the chairman of the Finance Committee and by the Finance Committee itself?—Yes, that is so.

10,689. I think a time came, in 1909 was it not, when the balances were so large that you were unable to deal with the whole of them through these approved borrowers?—That is so.

10,690. Will you tell the Commission the steps which you then took?—The Accountant-General brought to my notice, as chairman of the Finance Committee, that the balances were in excess of what the broker was able to lend in the usual way in the market, and that, in consequence, there would be a large sum lying at the Bank of England bearing no interest, and he asked if I could suggest any other safe means of employing the money. From my knowledge of what was taking place in financial circles in London, I knew that it was customary for other governments to make temporary deposits with joint stock banks, and I suggested that we might deal with the money in this way. The system of making these deposits was accordingly inaugurated, and a statement of deposits was made and was submitted weekly to the Finance Committee.

10,691. The initial step in deciding to make those deposits I presume was approved by the Finance Committee?—Undoubtedly.

10,692. And by the Secretary of State?—Yes. I accept the entire responsibility for the suggestion so to employ the balances in excess of what could be lent in the ordinary way on the market. As regards the system followed in fixing the rates of interest, the broker and I put our heads together and secured the best rates obtainable for short deposits. Being a Director of the National Provincial Bank of England, I was in fairly close touch with the money market in London, and as Mr. Scott practically lived in the money market, he was even more so than I was. We began depositing with the National Provincial Bank, the Union of London, the London County and Westminster, and as the deposits increased we brought in the City and Midland. I think deposits had been made with four banks when I left the India Office in July 1911. In regard to the deposits made with the Union of London and Smith's Bank, of which Sir Felix Schuster is Governor, I would like to say that these deposits were made with my sanction, without any reference to Sir Felix Schuster. Sir Felix Schuster and I never discussed the apportionment of these deposits, nor did we discuss the matter of rates.

10,693. Have you seen the evidence of Mr. Scott, which was published in our first report?—I think I did see it, but I did not pay much attention to it.

10,694. I want to ascertain quite clearly what was the practice in regard to making deposits with these banks; I understand that you in the first instance suggested the deposit with the banks?—That is so.

10,695. And certain banks being approved by the Secretary of State, deposits were thenceforth made as convenient with them?—Yes.

10,696. Did you, in these cases, also fix the maximum for any one bank?—No, I do not think we did.

10,697. You did not think that necessary?—I think we ran up to as much as 2 millions; it might have been more.

10,698. You had, as you have told me, personal knowledge of the rates for money?—Yes.

10,699. And the broker also had some knowledge?—More than I had, probably.

10,700. Did you act solely on your combined knowledge, or did you take any steps to test your view of what was the best rate obtainable by any system of competition amongst the banks on your list?—Assuming there was a quarter of a million to deposit, he would sound one or two of the banks, or perhaps three of them, and the deposit was given to the bank who gave the best rate.

10,701. Would he have sounded the banks before he came to discuss with you the rate that he was to demand?—I think the usual system was that I was communicated with by the Accountant-General, and I sent for the broker immediately and asked him what his view was as to the rate that could be obtained. I knew what was being paid in other quarters, and together, if we got an offer of perhaps 3-per cent., we would try to get 3¼ or 3½. We got the best rate we could for the money. The rates vary from day to day, and sometimes you may have a difference of half a per cent. in the course of two or three days.

10,702. What I am still not quite clear about is, how you would assure yourselves that you were getting the best rate on any particular day. Suppose a deposit with bank A of a quarter of a million fell due on a given day; I understand from Mr. Scott that he did not go round to all the banks on his list and say, I have got a quarter of a million, what is the price you will give me? but he probably went to the bank which had already got it, and tried whether he could get what he thought a satisfactory rate from them. I am not quite certain that I rightly interpreted Mr. Scott's evidence, but I should like to have from you how you think the transaction took place?—My recollection is this: If a quarter of a million was falling due on, say, the 15th of November, that was put on the record by the Accountant-General, and it was kept in view the week before. The market was watched, and the bank who had the deposit was sounded. The money market rate was perfectly well known, both to Mr. Scott and to myself. If the bank who had the deposit was prepared to give what was the rate of the market, that bank would be allowed to keep the money, and it would not be disturbed. That system was adopted, because in the long run I think it was better for the Secretary of State. If you go changing money about, and interfering with money and not letting the bank know that it is going to have a chance of keeping it, naturally it will not give you such a good rate. The bank would generally be told that it would be wanted, probably a week before, so that they also would know that they would not have that money to deal with, and it was not sprung upon them. We always made it a point, never to spring upon a bank the withdrawal of a deposit. If we were going to withdraw the money—and I think Lord Faber will understand this—we always let them know a few days beforehand, not only in the bank's interest, but in the interest of the Secretary of State.

10,703. Your reason being, I suppose, that the less inconvenience you caused the bank the better rate they would give you?—Yes, that is so.

10,704. Suppose you had new money, what would you do? I understand from what you have said that if you had a deposit already with the bank and that deposit fell due, you would certainly on even terms renew it with the same bank rather than transfer it to another?—Yes.

10,705. Now, we will suppose first that the bank was not prepared to give you the rate of interest

which you thought the market justified, what would you do then?—Then Mr. Scott would try to get a better rate from another bank, and transfer the money. That has been frequently done.

10,706. Supposing that in addition to renewing certain deposits you had new deposits to place, what would be your course then?—Assuming I was told that there were 500,000*l.* to be deposited of fresh money, the proceeds of Council Bills, say on the Wednesday, I would see Mr. Scott, and he would again sound the banks to ascertain if they would take the deposit for a month or two or three months. We had to be guided by what the requirements were to be according to the statements made. If Mr. Badock said we could deposit this for a month, he would get the best rate that was obtainable from any of the four banks for a month's deposit, and the bank that offered the best rate was the bank to get the deposit. It would frequently happen that one bank would offer 3 per cent. and another might offer 3⅛ or perhaps 3¼. I would say then, tell the London County and Westminster that if they will give 3⅜ they can have it. Mr. Scott would come back and say either that he had secured the rate or that the bank declined to give a farthing more. It was purely a matter of bargaining, and my business was to get the best rate I could for the Secretary of State, the same as one does in ordinary business from day to day.

10,707. Are you satisfied as a business man that you did in fact get the best rates—I will not say in every single instance?—I always did the very best I could for the Secretary of State. I put myself in the place of the Secretary of State, and I dealt in reference to his money precisely as if I were dealing with my own. I got the very best rate I possibly could. With regard to the deposits in the National Provincial Bank, I squeezed the very last penny out of them.

10,708. That was your own bank?—Yes, my own bank. It was the business of the manager of the bank to get the money from me on the best terms he could, and it was my business to get the best that I could from the manager of the bank. He knew that perfectly well.

10,709. (*Mr. Gladstone.*) That is when you are representing the British India Company?—It is just the same with my own money, British India money, or my firm's money. Even if you are the director of a bank you are not going to give that bank any better terms than you get from that bank's neighbour.

10,710. (*Chairman.*) Therefore in regard to that particular matter, there was no more divided interest drawing you in opposite ways, in your capacity as a bank director and in your capacity as a member of the India Council, than you are accustomed to in your business life, either as a member of your firm or as a director of a great company?—No, not the slightest.

10,711. You treated the business of the Secretary of State exactly as you would have treated the interests of your own firm, or one of your companies, under those circumstances?—There is not the slightest doubt about that.

10,712. As regards the periods for which those loans were made, I think in the case of the banks they were usually for a rather longer period than in the case of private parties?—Yes, as a rule they were. The periods are entirely a matter for the Accountant-General. He had his budget estimate framed. He had enormous disbursements to provide for, and he said, "I want the money deposited so that "it will fall in within a couple of days or one day before "I have got to disburse it; the first thing I have got "to consider is that I have got ways and means" —and of course he is quite right.

10,713. One thing put in answer to us was that any individual who has a particular responsibilty on his shoulders will guard that responsibility perhaps to the exclusion or the partial exclusion of all other considerations: do you think that possibly the policy pursued was sometimes over-cautious? Might you have got better rates without any real risk if you had sometimes lent for a rather longer period?—Sometimes you might have done that, sometimes you might not. For instance, you might be able to get a better rate if you deposited for six months; assuming that the market rate was 3 per cent. for three months, you might get 3½ for six months; on the other hand, by the time the three months had expired, it frequently occurred that there had been great changes in the money market and you were able to lend your money out at the end of the three months not at 3½ but at 4 per cent. So that if you take it on the average, I think, probably, Mr. Badock's system was no detriment to the Secretary of State.

10,714. In regard to the loans to the borrowers on the approved list, they were, I think, shorter still; I think they never exceeded four weeks?—I think they were about four weeks.

10,715. Do you think that was wise, or might it be extended?—I think that was quite wise. I think, as a rule, that was all they cared to take the money for. I do not think it suited them ever to take it for a longer period.

10,716. In lending to the banks you took no security?—That is so.

10,717. Do you think that Government ought to lend money without definite security being placed against the liability? I am assuming that it will not lend it except very safely?—It is an unusual thing for joint stock banks to give security for deposits.

10,718. Does not the London County Council get security?—I do not know. I do not know of any case where the great joint stock companies like the City and Midland, the National Provincial, the London County and Westminster, and the Union Bank, give security, and I doubt very much whether they would—I do not think they would bother with it.

10,719. Passing to the case of the private borrowers, there you did have security?—Yes, the private borrowers did give security.

10,720. Do you think that possibly you could have increased that market for your funds by extending the list of securities that you took?—The kind of security, do you mean?

10,721. Yes?—I do not know whether they had it to offer,

10,722. I will put a particular case as an illustration. There are very good securities registered elsewhere than at the Bank of England, but I understand that owing to the regulations now enforced, those are not available as security against your loans?—That is so.

10,723. Do you not think, as a business man, that it would be perfectly possible to give the Accountant-General such an assurance that the security has actually been hypothecated to the debt as could make it safe to lend?—It will entail a good deal more trouble.

10,724. At the present time you lend only on those stocks which are registered at the Bank of England?—You actually get the bonds in the case of what is lent.

10,725. Would you have any hesitation, as a banker, in accepting a certificate from another bank that they had transferred stocks standing in their books to the name of the Accountant-General?—No, none whatever.

10,726. Would there be any difficulty in getting other banks to do that for the purposes of such loans?—I think I may say that that was discussed once or twice, and the conclusion that was arrived at between the Accountant-General and Mr. Scott was, that the type of security that was got was the most convenient for our business and for the public. I do not think that ever came up very seriously before the Finance Committee.

10,727. Do you think it might possibly be worth while to consider it?—Yes, it might be worth while.

10,728. I myself asked Mr. Scott some questions about his remuneration for the services which he had rendered to the Indian Government. I think he told us that it had been revised on your suggestion, or at any rate at the time that you were chairman?—Under the instructions of the Secretary of State. I was the

humble instrument of having it reduced by something like 50 per cent., I think.

10,729. I suppose I must take it that the arrangement then come to was, you thought, a perfectly fair one to the Secretary of State?—Yes. It was a tremendous knock to him, because at the time he had done the work very well and it was reducing his emoluments by one-half. He kicked against it, but he accepted it. Just at that time the amount that was being lent was something enormous, so that was an inducement to him to accept the lower scale.

10,730. He is paid by commission, I think?—Yes; but he gets his commission not on the principal but on the interest that he earns, so that in all the operations that are done by Mr. Scott, the more he can squeeze out of the borrowers or the banks, the more is his remuneration. That, I think, is quite a sound principle.

10,731. You prefer a commission, which involves the principle of payment by results, to a fixed salary, do you?—I think it has worked uncommonly well in the case of Mr. Scott, and also of his predecessor. It has sometimes been considered whether there might not be a paid official to do the work. The man who might be employed there would want a considerable office if you have got this tremendous amount of securities passing through, and he would have great responsibility. I do not suppose you could give him less than 1,500*l.* or 2,000*l.* a year. Besides the office he would require a staff; he would come to be pensioned and his staff would require to get pensions. Then I am not quite sure that he would be so closely in touch with all the movements of the market as a man in Mr. Scott's position is. The difference of an eighth—I think I worked it out at the time—on what we were lending, that is to say, if we had got an eighth less than he did get—would rob the revenues of India of something like 20,000*l.* or 25,000*l.* a year. I had the figures worked out at the time, and I thought on the whole that the revised arrangement made with Mr. Scott was quite a reasonable one for the Secretary of State. Of course it is not a permanent arrangement. Every arrangement of that kind requires revision from time to time just as it was revised when I was Chairman of the Finance Committee. The previous arrangement had been going on for a great many years, and naturally you can improve an arrangement if you reconsider it. No doubt the arrangement with Mr. Scott, if it is shown that he is getting more than he ought to get, will be subject to reconsideration again.

10,732. I think the India Office required that Mr. Scott, when he took up the appointment as broker, should join a firm?—That he should join one of the best firms in London, Nivison's.

10,733. That was in order to get him a standing and experience?—A standing in the City, and, of course, great knowledge. He has the benefit of Mr. Nivison's knowledge, which is very considerable, as we all know, in the London money market.

10,734. I do not wish you to think for a moment that I am suggesting that he has ever acted except with the most earnest desire to serve the interests of the Secretary of State?—I am quite sure of that.

10,735. But is not the arrangement open to criticism, just as the arrangement with bankers, as you know, has been criticised, on the ground that whether or not in fact they were wrongly influenced in any arrangements they made, at any rate they might have been, and therefore they were, laid open to suspicion, and it is undesirable that anybody acting for the Government should be even open to the suspicion of having a reason for doing a wrong thing?—I cannot conceive any man, knowing Mr. Scott or knowing Nivison's, and knowing the facts of the case, could have any suspicion.

10,736. I would rather, if I can get you to do it, ask you to exclude both Mr. Scott and his firm from your mind when you are answering my question, which is not directed against them. I am trying to put to you, in order that I may have your answer, a criticism of the system, not an attack upon an individual. I would like to say quite definitely that we have not had a word of evidence which suggests any criticism of the firm or of Mr. Nivison?—If I was in the position of Secretary of State for India I would certainly employ a man in the City to lend out my balances rather than a permanent official at the India Office, because I believe that man will do far better, assuming he is an honest man, for the revenues of India, paid as he would be on a commission, than a permanent official. That is my candid opinion.

10,737. Have you ever considered whether it would be possible to do the business through the Bank of England?—No. That has never been considered, but I should not recommend it.

10,738. Would not working through the Bank of England relieve the Secretary of State and his immediate advisers from a rather invidious task, if, instead of the Secretary of State having to make his loans through an officer of his—and that is what, in fact, Mr. Scott is—they were made through the Bank of England?—I should be very sorry to see them made through the Bank of England, from the point of view of the advantage of the revenues of India.

10,739. Will you tell me why?—The Bank of England has got its own business to look after.

10,740. You do not, therefore, think they would be able to get such good terms?—I do not think they would be able to get such good terms.

10,741. Is it the terms that they would get from the borrowers, or the terms that they would exact for doing the business, which are unsatisfactory to you?—If you were to entrust it to the Bank of England the Bank of England would have to entrust it to a broker, and that broker would be working not solely for the Secretary of State, but for many other interests. The Bank of England cannot do the work, they must do it through a broker, and that broker must be paid by commission on the interest that he has earned.

10,742. Would it be impossible to institute with regard to the money you had to loan, any system of tender?—No; but I think it would be extremely difficult and very awkward, and I do not think the results would be nearly so good for the revenues of India.

10,743. In connection with this question of loans, we have had it in evidence that the instructions to the broker were that he must lend the money—that he was to obtain the best rate he could, but that he must lend it. Would it not have paid the Secretary of State well sometimes to hold his money back if he could not get a good rate, and forgo his interest for the moment?—No, I do not think so. It would have gone piling up, and he would have been in a worse position than ever.

10,744. You think it was a right policy?—I think it was right. The other way it would have been speculating in the market. The Secretary of State would have had this money earning no interest in the Bank of England; if the broker were to hold it up and try to force the market to pay a higher rate I do not think he would have succeeded. If they were only offering us 2 per cent., we would lend for a fortnight only, on the chance of the market improving. I do not think it would pay him to pile the money up. He would have half-a-million to lend to-day and he would probably have another half-a-million on Monday when these Council bills are being sold in very large amounts; and then he has got a million to lend out instead of half-a-million. I should like to add that some discretion had to be exercised in the placing of these deposits, as it would not have been to the advantage of the Secretary of State to hawk them about and probably have refusals, as that would have undoubtedly led to a loss in interest. A letter which I wrote to Sir Edward Holden on January 17, 1911, will perhaps explain to the Commission better than anything else the procedure adopted in regard to the loans to banks. My letter was as follows:—"Private. London, 17-1-'11. Dear Sir "Edward Holden, the Secretary of State for India has "considerable amounts of spare balances which he "deposits from time to time with London banks, and "the business of arranging these deposits is entrusted "to me as Chairman of the Finance Committee. "Hitherto our deposits have been made with the

"National Provincial Bank, the London County and "Westminster, and the Union of London—they run "into large amounts—and it has occurred to me you "might be glad to have the opportunity of securing "some of the business. I expect we shall have some "fresh money for deposit within the next week or two, "and if you care for it I shall ask our broker, Scott of "Nivison's, to call and see you when the time comes. "You might let me know. You will treat this com-"munication as confidential, Yours, &c., Jas. L. Mackay. "To Sir Edward Holden, Bart., London City and "Midland Bank, Threadneedle Street, E.C." A deposit of 500,000*l.* was accordingly made with the London City and Midland Bank for, I think, a period of three months, but when it fell due Sir Edward declined to renew it, on the ground that such deposits might be a source of inconvenience to the banks that held them and were liable to have to repay them at a fixed date.

10,745. (*Lord Faber.*) Why did Sir Edward Holden come to the conclusion that he did not care about renewing it?—I do not know. He wrote to me when the deposit fell in and said he did not care to renew it. He said these deposits might be a source of inconvenience to the banks that were liable to have to repay them at a fixed date.

10,746. (*Chairman.*) In recent years the balances have been abnormally high, have they not?—Yes.

10,747. Both in India and here?—Yes.

10,748. And especially here. It has been suggested, I think, in some quarters that that money is taken away from India and brought here for the advantage of London?—I have seen that stated; I think that is one of the attacks which has been made upon the system.

10,749. I should like to have your answer to it?—In regard to that it is sufficient to say that the increased taxation imposed in 1910 was initiated by the Government of India and was sanctioned by the Secretary of State in Council solely on the representations of that Government as to its absolute necessity, in view of the impending loss of opium revenue and the general state of the finances of India. The attitude of the Secretary of State in Council was one of reluctance throughout. As regards the transfer of the surplus revenues to London with the unworthy object of easing the London and starving the Indian money market which has been imputed to some of us, the policy of the Secretary of State has always been to meet the market and to get money home from India when he could and so long as the cash balances could pay for bills drawn on India. When the cash balances were insufficient to meet the demand for Council bills, since the closing of the mints, the Secretary of State has bought silver and coined it, and has met the demand for currency in this way as he is obliged to do under the law. It seems to me that the sale of Council bills on India by the Secretary of State, instead of denuding the Indian money market, has had quite the contrary effect. The Government of India balances were locked up in the treasury, and the moment bills were sold by the Secretary of State on the Government of India, either to the exchange banks or to merchants, these balances, to the extent of the bills sold, were placed at the disposal of the trade.

10,750. I should like to ask you, when you speak of the funds so released being placed at the disposal of trade, how far do they go towards the relief of any stringency in the Indian money market? Do they get beyond the external trade into the internal trade of India?—Undoubtedly; they go off immediately in payment of produce. Might I put it to you in this way: Take the Chartered Bank of India, or any of the exchange banks, if they buy bills in India for 10 lakhs of rupees, that money is immediately placed at their credit with one of the Presidency Banks, and they are then in a position to buy merchants' bills drawn upon Europe or America, or it might be for Australia, against produce, so that the merchant immediately gets the money he requires and he is enabled to pay for his produce. Therefore the money flows up country.

10,751. (*Lord Faber.*) By documentary bills, I suppose?—Yes.

10,752. (*Chairman.*) It has been suggested in some quarters that instead of selling in any one financial year more than the amount that he requires to meet his immediate needs for the home charges, he should shut down his sales at the moment he has covered those charges, what do you say to that?—Assuming that he requires 18 millions to pay his home disbursements in 1913-14, by December 1913 he may have sold bills on India which have realised him 18 millions, then the suggestion is that he should sell no more; that though he has lots of money on the other side he should shut down, and people requiring money in India would have to send out gold. That gold would be immediately offered to the Indian Government, and rupees would be taken in exchange, and it would lie in the coffers of the Government. The Secretary of State is bound to sell, in fact he has given an intimation that he will sell without limit at 1s. 4⅛*d.*; he must provide the currency as required, and that gold would have to come back to pay for the silver that he bought to provide the currency. So far as I can see there is nothing to be gained by it.

10,753. So that, in your view, when the transaction was completed it would mean that gold had been shipped to India merely in order to be shipped home with a charge of freight, insurance and interest both ways?—Yes. It would suit our friend Sir Thomas Sutherland very well, and it would suit Mr. Gladstone who is a director of the P. and O. It would also suit the insurance companies very well, and it might suit the British India Company, but I do not think it would suit any other body.

10,754. The interests we have to consider are the interests of the Indian Government and Indian people?—Undoubtedly.

10,755. And you do not think that they would be served by such a course of action?—I cannot see that they would be.

10,756. Some witnesses appear to consider that the Government, by selling Council Bills in excess of their requirements, force the circulation of rupees and deprive the people of India of the gold to which they are entitled; I should like to ask you in regard to that whether, in your opinion, the Indian Government have any power to increase artificially the circulation of rupees?—They have none whatever. Any man bringing 15 rupees to the Government can get a sovereign for them. They presented 12½ millions sterling worth of rupees to the Government of India in 1907, and they got 12½ millions of gold or the equivalent of it.

10,757. Are there any means by which the Government of India can put additional rupees into circulation, except in response to demands from the public?—Absolutely none.

10,758. What do you say to the statement that the Government, by selling bills freely, instead of forcing the banks or merchants to send gold to India, deprives the Indian public of the gold they desire to have?—In regard to that I say the demand is mainly not for gold to be put into circulation but for rupees, and when sovereigns are sent to India they are nearly always tendered at once by the importers to the Government to be exchanged for rupees. For instance, if I had 15,000 rupees in India to-morrow, and I wanted 1,000 sovereigns, all I have got to do is to go to the Treasury and get them.

10,759. In your opinion, therefore, there is no difficulty in getting sovereigns in India if there are any?—Not the slightest. We gave them up to 12½ millions, and no doubt at the present moment you would give them up to 43 millions sterling worth.

10,760. (*Lord Faber.*) Does the Indian Government undertake to supply gold for rupees?—They do not undertake it, but they do. They cannot bind themselves, and they have never bound themselves, but what they have done is to say, we will go on and pay out our Gold Standard Reserve until it is exhausted, and when it is exhausted we will see what we can then do. But it never has been exhausted.

10,761. (*Chairman.*) Where have they said that?—The Government of India have made that announcement. They have shown it by what they have actually

done. They have never refused to exchange rupees for gold.

10,762. Take the crisis of 1907 and the following year; they did not at once without hesitation pursue that policy, did they?—Sir Edward Baker held up gold for about 12 hours until he got orders from here. He would not part with his gold, and that was actually put a stop to by the Secretary of State. From the time he got his orders the gold was poured out until the whole of it was exhausted, and when the gold was exhausted we gave them sterling bills on the Secretary of State.

10,763. I should like to ask you in that connection, now that there has been further experience, what your view is of the correct policy for the Indian Government and the Secretary of State to pursue in case of another crisis; I presume you would say without hesitation that the gold in the Gold Standard Reserve in London ought to be freely used for the support of exchange?—Absolutely.

10,764. Would you say in the same way that any gold in the hands of the Government of India should be equally freely used?—Absolutely.

10,765. How do you think it could be best used? I am speaking now of gold in India. Would the best use in such a crisis be to pay it out to anybody who asked for it, or, on the other hand, would it be more efficient for the support of exchange if you at once shipped it to London and sold against it?—I would pay it out.

10,766. You would pay it out?—I would go on paying it out as hard as the people chose to put in rupees, and if there was not enough gold in India I would give bills on the Secretary of State and let him meet them from his gold reserve here, and when that is exhausted I should go on selling bills again, and I would sell every security I had until it was exhausted. When that is done, when you have got rid of your 43 millions, then you have either got to borrow to support your gold standard exchange, or you have got to let the exchange go by the board. That, in my opinion, will never happen. We had a crisis in 1907 which I do not think is likely to be very much exceeded—but you might have the same again—and then they only took 12½ millions. I would not stop paying out gold for one moment.

10,767. Some of the witnesses who have come before us have certainly thought that that crisis was hardly the measure of the crisis which might come upon the Indian Government?—You had two severe famines then, and you had a financial crisis in America.

10,768. I think it was the Governor of the Bank of England who said to us in a phrase which remains in my memory, that if the storm centre had been in London, the situation would have been much more difficult to deal with?—Yes, it would. Of course, you cannot tell, but we have got now 43 millions sterling and we saw a pretty bad crisis through with 12½ millions, and came out with 11½ millions to the good. If we lost the whole of our gold and all our securities, we would only go back to where we were in 1893 before the mints were closed and when there was no Gold Standard Reserve.

10,769. I was rather thinking at the moment when I began this series of questions, about the best use of your gold. I do not know whether in saying that you would give it out freely in India, you are influenced by the fact that your gold resources or your sterling resources are so large now that you can afford to let the gold go out for whatever purposes it is demanded?—I think you must treat everybody alike. If you do not do that, you will not support exchange.

10,770. Suppose your resources were much more limited, would you not say for the purpose of maintaining exchange if you had, let me say, a sum of 5 millions, that it would be much more effective to send that 5 millions to London than to give it to the first comers in India?—No, I do not think so. I would not send it to London; I would give it up to whoever wanted it.

10,771. Taking those years, I think something like 4 millions were given out in India?—Yes.

10,772. And apart from the shipment of a lot of sovereigns made by the Government, I think we have had it in evidence that only about a quarter of a million could be traced directly as going to the support of exchange?—It must have had a considerable effect upon the support of exchange, although it could not be seen.

10,773. In preventing the import of gold, perhaps?—I do not see why the people who had paid for the rupees, and given a sovereign for them, or had given produce equivalent to a sovereign, should not get the sovereign back, as well as other people. I should go on and give the gold away to whoever wants it. If you do that then you are all right, and you have no quackery. You go on and give the money away to whoever brings you rupees, till you have exhausted your Gold Standard Reserve, and, when you have done that, you can do no more.

10,774. Do you hold the view that the Indian people are given to hoarding gold?—I do not think they hoard it much. I think they put it into ornaments; if they have a good season they like to ornament their womenkind.

10,775. That is a form of saving, is it not?—Exactly. There is no reason why they should not do that; it pleases them.

10,776. At a moment of crisis like that, if they have any gold put away, they are not very likely to bring it out, are they?—You will see that they will bring it out if they have got to buy clothes and food.

10,777. They will bring it out under the stress of famine?—Undoubtedly; or perhaps for a wedding, or perhaps if a man wants to go to Jeddah, as thousands go every year, on pilgrimage. If they have got no credit with the *marwari* then, naturally, they will sell their jewels.

10,778. At the moment when exchange is uncertain, and when you want gold to flow freely to its support, would that not be rather the time when men would be inclined to keep gold by them, and to pay out rupees? Would not the very fact that they were uncertain about the future of exchange cause them to hold their gold and increase it if they could rather than to produce it for the support of exchange?—There is no reason why they should not. If they are afraid of the rupees going down to less than 15 to the sovereign, naturally they will get rid of the coins they are alarmed about.

10,779. If they used up a large part of the gold resources of the Government of India in that way, would not that rather aggravate the crisis instead of ameliorating it?—No, because they only use up the gold resources of the Government of India by paying back rupees. If the Government of India get back four or five crores of rupees, it does not matter where they come from; they have made the currency that much less redundant, but it does not matter where the rupees come from if the rupees come in.

10,780. (*Mr. Keynes.*) If there was an adverse balance of trade of 20,000,000*l.* to meet, and if Indians through distrusting rupees, replaced their rupees with sovereigns to the extent of 10,000,000*l.*, that would be a call on the reserve of 30,000,000*l.*?—I do not quite follow.

10,781. I am assuming, first of all, there is an adverse balance of trade which must be met of 20,000,000*l.* I am assuming also, that owing to the distrust of the rupee, Indians in India replace rupees with sovereigns to the extent of 10,000,000*l.*; that means, does it not, that the Government must find 30,000,000*l.*?—If you have an adverse balance of 20,000,000*l.*, and there is also a distrust of the gold value of the rupee to the extent of 10 millions?

10,782. I might put it like this: If the Government attempts both to meet the adverse exchange, and also to replace rupees for people who are getting afraid, they would need larger reserves than if they were only to attend to the exchange?—I think they are both the same. The adverse balance of trade undoubtedly would have a depressing effect on exchange.

10,783. But it does not help exchange in the slightest degree, does it, if persons in India replace

rupees by sovereigns and keep the sovereigns in India?—I am afraid I do not follow you.

10,784. Suppose a man who used to have rupees in his pocket, puts those rupees in the Government's chest and has gold in his pocket instead; that does not help exchange, does it?—Of course it does.

10,785. How does that help exchange?—Because you take rupees off the market.

10,786. But you replace them by sovereigns?—The rupees have been redundant, and therefore there are more rupees than are wanted practically, and they begin to go to a discount; is that not so?

10,787. Yes?—The Government buy them, and so they maintain the ratio, and therefore the rupees do not go to a discount.

10,788. (*Chairman.*) Am I right in understanding that in your view, if there is a crisis in exchange, the same circumstances which make that crisis will necessarily make the rupee circulation redundant and call for a contraction of the amount of rupees in circulation?—Yes; that is my view.

10,789. (*Mr. Keynes.*) Is it not the case that it is not the rupee in particular which is redundant, but that there is more circulation in the country than the country wants at the moment? If you simply replace rupees by sovereigns, that does not affect prices or anything else. If the Government refused to give gold for rupees in India, but sold sterling drafts freely in return for rupees, rupees would fall to a slight discount, but they would not fall to a great discount. The amount of the fall would be measured by the cost of bringing the money back again from London to India, would it not, and you could let them fall to a discount within that region without affecting things?—If a man has given a sovereign for 15 rupees, it would be quite wrong that you should not give him the sovereign back, but that you should give a man who happens to have an office in London a sovereign in London in exchange for 15 rupees.

10,790. May I put the point again like this: If there is an adverse balance of trade of 20,000,000*l.*, and the Secretary of State sells sterling drafts in India, that 20,000,000*l.* is the maximum he will have to sell; if he also agrees to replace rupees in the pockets of the people in India with sovereigns, he will have to supply more than 20 millions sterling?—If he sells bills on London for 20 millions sterling, he has mopped up the equivalent of 30 crores of rupees, has he not?

10,791. Incidentally, yes?—Not incidentally at all. He has mopped it up; he has got that before he has given up his bills.

10,792. And he has not replaced it by any other money in India; he has replaced it with funds in London, not in India?—He has replaced it in London.

10,793. Not in India?—Not in India.

10,794. He has reduced the currency in India?—Yes.

10,795. But in the second case he has not?—How do you mean that in the second case he has not?

10,796. In the second case, in which he replaces the rupees in people's pockets in India, and puts sovereigns in their place, he has not reduced the amount of currency in India?—I really do not follow you. He has given out sovereigns to the people in India——

10,797. (*Chairman.*) He has altered the form of currency?—Yes, he has.

10,798. But he has not decreased the total of the currency?—No.

10,799. (*Mr. Keynes.*) I am suggesting that if he is to do both things, he needs more resources than if he is only attending to exchange?—I would strongly recommend the Commission not to attempt any quackery of that kind. I say, pay out your sovereigns as long as you have got them in India, and then sell your securities when you have exhausted your gold. You will never come, as far as I can judge, to anything like 20 millions of the Gold Reserve Standard being required.

10,800. (*Chairman.*) That takes me to another point upon which I would now like to ask you a question. Have you formed any standard in your own mind for the Gold Standard Reserve?—For many years the idea was that the reserve should reach 12 millions; then, when we got up to 12 millions, we began to get, a bit frightened—we are always a little afraid of touching the reserves, you know. We discussed it here at the India Office, and we thought we had better have it 20 millions. Then, when it got up to 20 millions, we left it alone and did not pay any attention to it, but let it run up. Now it has gone up to 43 millions. I think we have got quite enough now.

10,801. You are talking not of the Gold Standard Reserve alone?—It is all available for the support of the Gold Standard Reserve.

10,802. You are talking of the Gold Standard Reserve and the Paper Currency Reserve?—Gold is in the Paper Currency Reserve, and you can put rupees in there and take out the gold. In the Paper Currency Reserve, all you have got to do is to provide the rupees, and then you can take the gold out of the Paper Currency Reserve, putting in the rupees. So, practically for the support of the Gold Standard Reserve at the present moment the Government of India and the Secretary of State between them have 43 millions in gold and sterling securities.

10,803. For this purpose, you regard the two reserves as interchangeable or complementary?—Yes, and they always have been treated so.

10,804. Do you think there would be some advantage if in the Gold Standard Reserve you had a larger proportion of gold by transferring the silver which now is in that reserve to the Paper Currency Reserve? It does at first sight appear an anomaly that the Gold Standard Reserve, or Gold Reserve as it was originally called, should contain silver?—Of course you know how that came about. They got a little alarmed, and there was a great demand for coinage, and they thought that they ought to have a little reserve of silver that they could draw upon immediately, so as not to have to wait until silver was shipped from home.

10,805. It has a little confused the purpose for which the Gold Standard Reserve exists?—Yes, it has. It was a suggestion of the Government of India. They anticipated a purchase, and then, having got the 4 millions or 5 millions that they have got there, they have been frightened to use it. Now, they say, we must always have that as a reserve. A most dangerous thing in the world is a reserve: the moment you get it, you are frightened to touch it.

10,806. I understand your view in regard to that would be the same that you have expressed in regard to the Gold Standard Reserve, namely, that when the moment comes, you should use it freely?—Of course.

10,807. And it is only there for that purpose?—Exactly. I think that is the best you can do with it.

10,808. (*Mr. Gillan.*) As a practical question, from your point of view would it be equally efficient for the support of exchange if we held all the gold that we may have in the Gold Standard Reserve in India, and gave it out, as you say, to the first comer?—For all practical purposes, I believe it would be just as good.

10,809. You would not reserve a certain amount to be held in London to meet sterling bills?—I think it is a matter of very little consequence where it is held. I do not think I would send it to India; I would not go to the expense of shipping out; but whenever it flows out, as it does from Egypt and from Australia, I should leave it in India unless it is required here. But, as I say, I would not go to the expense of shipping it out. It is no more use out there than it is here, except to pay out in times of crisis. I am not sure how much is out there now.

10,810. (*Chairman.*) In your view, then, it is a matter of indifference whether the gold of the Gold Standard Reserve is held in India or in London?—I do not think it makes much difference now that we have got so much.

10,811. Would you go so far as to say that it is equally efficient for the maintenance of exchange

whether it is given out in London, or whether it is given out to every comer in India?—Undoubtedly.

10,812. Do you think that a million sovereigns issued to a series of first-comers in India at a time of crisis would be as effective for the support of exchange as a million sovereigns in London?—Do you mean as the sale of a million sterling of Government of India bills upon the Secretary of State?

10,813. Yes?—Undoubtedly they would be equally effective.

10,814. Looking on the gold in the two reserves as one for this purpose—and I understand that is your point of view—do you consider that there is an adequate amount of actual gold available?—Yes.

10,815. You take no exception to the investment of so large a proportion of the Gold Standard Reserve in securities of one kind or another?—No, I do not. Of course, it is cheaper to keep your reserve in securities, as then you are earning 3 per cent. interest. Undoubtedly there has been a depreciation, and if the securities were sold there might have been a loss of 3 or 4 or 5 or 6 per cent., or perhaps 7 per cent.—I have not got the exact figures, but I have had them, of course—in the last seven years. On the other hand, multiplying three by seven you have had 21 per cent. interest during that time, which you would not have had if it had been lying in gold.

10,816. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price?—Things then would be very bad indeed. You would all be "bust" up if it came to that.

10,817. From the point of view of realising gilt-edged securities, things have been very bad indeed, have they not—very much worse than anybody would have anticipated 10 or 20 years ago?—They have. The value of money has gone up very much, and naturally gilt-edged securities paying a low rate of interest have gone down. One is very rash to prophesy, but if we have a spell of bad trade or slack trade, you will see the securities away up again, assuming that we continue to have peace in the world.

10,818. I think the balance of numbers, at any rate—I express no other opinion at present—among the witnesses who have appeared before us has been in favour of holding a much larger proportion of the Gold Standard Reserve in gold?—I have never been in favour of that. That is, perhaps, because I have been so anxious to take care of the revenues of India.

10,819. It does seem to me as if in this particular respect the India Office has pursued a policy which indicates a different temperament to that in which it has acted in other capacities. Take, for instance, the loans of which we were talking; it has always acted on the side of extreme caution, so that it could not possibly be caught short?—That is so.

10,820. But in this respect it has rather invested up to the hilt?—Would you say that?

10,821. I gather you do not think that?—How much gold have they got now?

10,822. In the Gold Standard Reserve very little?—When you come to look at it, they have got 25 millions in gold and 18 millions in securities.

10,823. How much of that is in the Gold Standard Reserve?—The whole of that is available for the support of exchange.

10,824. (*Lord Faber.*) On the other side, how many upees can come out against that in India?—That amounts to 43 millions sterling. You have got to multiply 43 by 15; it is something enormous.

10,825. But that is really the whole question, is it not—how many rupees can be thrown against it?—64 crores of rupees.

10,826. There are a great many more than that, of course, in India?—But they are not all going to come out. You cannot do without rupees to carry on the trade of the country, so they will not all come out. In the crisis of 1907, with a famine two years running and a financial crisis, when commodities dropped something like 50 per cent., only 18 crores came out.

10,827. Do not forget that the financial crisis was in America, and not in London?—A financial crisis in America, which cut down the price of commodities tremendously; that, of course, meant a tremendous fall in the value of the exports, and then on top of that you had two famines.

10,828. But it did not affect London in the way of making it difficult to get gold in London, as it would do to-day. If you had to get 10 millions of gold in London to-day, you would find it very difficult, would you not?—What is the reserve of the Bank of England? I think it is 28 millions of gold, and here a poor country like India has got 25 millions in gold.

10,829. (*Sir Ernest Cable.*) You said that the whole amount of rupees would not come out, but I suppose it would not be too high an estimate that perhaps a quarter of the rupee circulation might be presented in exchange for gold?—I cannot conceive it. I do not know how they would be able to carry on their business. If you give a poor man a sovereign, he has got to change it; as a sovereign it is of no use to him. Take the whole of the 300 millions of people in India; a sovereign would be of no use to them.

10,830. That is so, but we are speaking of a time of panic when the cultivator will go for gold in place of his rupees?—He will go for gold if he has got the rupees to go with, but not if he has not got them.

10,831. There are 200 crores in circulation, of which 25 per cent. would come to 50 crores?—I would not be afraid of it. I do not see how you are going to get on without the rupee circulation.

10,832. (*Lord Faber.*) Does the Indian Government undertake to pay gold for rupees?—No, but it does.

10,833. If it does not, then every farthing the Government takes in gold when it sells its rupees should surely go into the Gold Standard Reserve in liquid gold, should it not? The Government is selling rupees for gold, but it will not give gold for rupees?—It does not undertake to give gold for rupees, but it does give it.

10,834. Should not all the gold that it gets into its coffers by reason of the sale of rupees go into the Gold Standard Reserve more or less in liquid gold, because the rupees may come back and be thrown at them again?—That is the point. The India Office and the Government of India have thought it wasteful to keep the whole of this tied up in a chest.

10,835. I agree from one point of view that it is wasteful, but to my mind there is something beyond that, and that is the safety of exchange; in that I do not think any risk ought to be run?—I deposit 100,000*l.* with my banker in gold; he has got that in gold from me: should he keep it in liquid gold in order to be able to pay me back? He does not.

10,836. He ought to keep a proportion of all his deposits in gold?—He will lend it to Mr. Gladstone, say and get 5 per cent. on it, knowing perfectly well that when I want it back again he will get it from Mr. Gladstone. I think the Government of India are quite justified in putting a very large proportion of the reserves into securities which will bring in an income.

10,837. (*Chairman.*) I may take it generally, perhaps, from what you have said, that you feel amply satisfied that the resources at the back of the Indian Government and the Secretary of State are sufficient to meet any calls that are likely to come upon them for the maintenance of exchange?—I do, now that they have 43 millions sterling in gold and securities.

10,838. And even before quite as much as that was accumulated you felt sufficiently secure, in view of the urgent need for railway development, to recommend or be a party to the diversion of, I think, a million and a half of the money that would have gone to the Gold Standard Reserve, to railway construction?—Yes.

10,839. Looking back on it you see no reason, I gather from what you have said to us, to doubt the wisdom of that transaction?—Not the slightest.

10,840. Your mind has not been affected by any of the criticisms which have been directed to it?—Not in the slightest degree. As I pointed out, we had then 23½ millions, we diverted 1 million, we had this crisis upon us and we were called upon to pay 12½ millions,

and we came out of it with 11 millions, I think it was perfectly justifiable.

10,841. You did, I think, entirely deplete the currency reserve of its gold?—Yes, I think so. We paid away the whole of the gold we had, and we realised a lot of our securities.

10,842. (*Mr. Gillan.*) Do you not think if at that time we had had more gold in our Paper Currency Reserve in India, the total drain on our gold would have been much greater? We had to stop giving it out because we had none left?—But we did the equivalent, you know. We sold bills freely.

10,843. Would not the demand in India for gold have been much larger if the Government had been able to supply it?—I do not think it would have been. We did precisely the equivalent. All the banks who had over-supplied themselves and who found when the famine came that they did not require the money in India but wanted to get it home to meet their obligations in this country, took all the gold they could get out of the Government, and then we telegraphed out and said: Sell bills freely to any amount on the Secretary of State. That met the demand.

10,844. Do you think the total demand for gold was satisfied in one way or another?—Yes.

10,845. In spite of the fact that issues of gold in India were stopped altogether for quite a long period?—The gold was exhausted.

10,846. (*Chairman.*) Do you carry your approval of what was done in regard to diverting a portion of the Gold Standard Reserve income, if I may so describe it, to railway development, to the point of saying that under present circumstances you think the resources are so large that you would not accumulate further funds in the Gold Standard Reserve?—If I had the honour of being an adviser of the Secretary of State on the Council, I should certainly recommend that the profits henceforth, say from the end of 1913, from coinage should be no longer accumulated either in gold or in sterling securities; and that they should be applied in amplification of the money that is got for the building of railways in India. Railways in India, as of course you know, are the lifeblood of the country. Not only do I regard them as most important in view of developing the trade of the country, but also in view of preserving the life of the people. Take the famines; if you can get food poured into the districts by means of these railways, you can keep people alive who otherwise would be swept out of existence. Then think of the return that you get from them—4½ per cent., 5 per cent., 6 per cent., and even 10 per cent. some of our friends make on railways. You cannot get a better investment as long as we hold India.

10,847. I agree that it is a magnificent investment, and that there is a very large field for it; but what I wanted to have definitely from you was whether you thought that the means at the disposal of the authorities for the maintenance of exchange were now so ample that you could afford to divert the funds which have hitherto gone to increase these means, to the, at any rate, much more indirect way of preventing famine or supporting exchange which is afforded by railway development?—I do. Might I put it to you in this way: The Government of India are borrowing anything from 8 to 10 or 12 millions annually at the present moment for the construction of railways, and they are eating up their credit by doing that. If, instead of borrowing 12 millions they were to borrow 8 millions and they were to use 4 millions from the profit on the coinage for the building of railways, they would be again building up credit. After all, if you have a sufficient liquid balance to carry on your business, surely you had better apply surpluses to the reduction of debt or to not increasing your debt. After all, if this Gold Standard Reserve runs out, if the 43 millions are cleared out, where would the Government of India be? If they used up 20 millions of the coinage profit in building railways, they would have 20 millions less debt round their necks than they would have if they piled up this 20 millions in the Gold Standard Reserve and borrowed the extra 20 millions in the market; so at the end, with the 43 millions exhausted, if they had to go into the market to borrow 20 millions, they would be no worse off in order to support exchange than they would be if they did not do it. They would come out of it with 20 millions less debt round their necks and the Gold Standard Reserve exhausted. On the other hand, if they had the 20 millions in the Gold Standard Reserve, they would come out with that 20 millions, but with 20 millions more debt round their necks.

10,848. That is true; but does it not follow that the immediate charge they would have to meet in the crisis would be reduced not by 20 millions but by the interest on 20 millions? Their resources to meet the crisis would be reduced by the whole 20 millions which they had failed to accumulate, but the charges which they would have to meet would be reduced, not by the 20 millions, but by the interest on 20 millions?—I am afraid I do not quite follow.

10,849. Suppose they accumulate the 20 millions of which you speak in the Gold Reserve, then whenever a crisis comes they have 20 millions of reserve to meet the crisis; but, you say, they are burdened with an additional debt of 20 millions?—Yes, and the charges upon that.

10,850. But the charges are not 20 millions; the charges are 3½ per cent.?—The charges are, say, a million a year.

10,851. We will call it a million a year. If they follow the one course and accumulate the 20 millions in the reserve, their resources will be increased by 20 millions and their obligations by 1 million; if they follow the opposite course which you recommend, their obligations will be diminished by 1 million but their resources for meeting them will be at the moment of the crisis diminished by 20 millions?—Do you mean the annual burden will be a million less?

10,852. Their annual charges will be a million less; but when the crisis comes their resources for meeting an exchange crisis would be 20 millions less. I am putting it not as a problem, which is the most economical transaction spread over a series of years, but what is the effect upon their power to meet a crisis at the moment when the crisis arises?—Their credit would be so much higher through having 20 millions less borrowed that they could borrow to meet this crisis. If the 43 millions was not enough to meet the demand upon the Gold Standard Reserve, they could always, if necessary, borrow, and they could borrow so much the better because they had borrowed 20 millions less than would have been borrowed otherwise.

10,853. (*Lord Faber.*) Do you think India's actual credit has much to do with the price it pays for a loan? Is that not governed by the state of the money market at the moment?—That is a very complex question. If you put out a loan of 10 millions in the spring of 1913 you might close it at 3½ per cent. at 85—I do not think you would be able to do better than 85 just now.

10,854. You would not?—Then, if it is known by the time this loan is absorbed—by July or August, say—that you are going to have another 10 millions in the market again in February, you are bound to keep down the price—you cannot help it. If you reduce your borrowing the chances are that you improve the prices at which you are able to dispose of your loans. It is a very complex question, and I quite agree with you that the state of the money market at the time has a good deal to do with the price; but if you are a constantly borrowing Government, and there is always another 10 millions on top of you before the last 10 millions has been properly digested, when you come out with your next 10 millions you are bound to get a lower price.

10,855. Judging India on its merits I say its credit is far too low; it is a very rich country?—Yes. It is that constant borrowing which affects her; and you cannot get away from it if you are going to develop the country.

10,856. (*Mr. Gillan.*) Might not the crisis be of such a nature that a borrower, even with the best credit, cannot sell his assets?—He can at a price.

10,857. Yes, at a ruinous price?—If you have good assets you can generally get your money.

10,858. (*Chairman.*) Now I should like to pass from that and to ask you to give me briefly your views on a

proposal, about which we have heard a good deal, for the opening of a mint for the free coinage of gold in India?—I have of course seen it stated that the absence of a mint for the free coinage of gold in India places the country under a disability, and while I have no objection to raise to the coinage of gold in India, I question very much whether the establishment of a mint there will make any appreciable difference, or be any advantage to the country. India produces only 2 million pounds' worth of gold every year, and even if the whole of this were to be coined in India, which to my mind is doubtful, the expense of sending this gold to England to be coined would be less than the cost of establishing and maintaining a mint in India. Sovereigns and half-sovereigns are legal tender in India in the ratio of one sovereign for 15 rupees. There is no difficulty in getting sovereigns. The Government of India, as I have pointed out, have 43 millions sterling (25,000,000*l.* in sovereigns and 18,000,000*l.* in securities) at their disposal, and they will exchange these for rupees as required, at the ratio of one sovereign for 15 rupees. For all practical purposes India has free coinage of gold now through the sovereign, just as Ireland has or Scotland or New Zealand or The Cape, though there is no mint in any of these countries.

10,859. Let me turn to yet another subject. Our attention has been drawn to the amount of the fiduciary issue of the Paper Currency Reserve; have you formed any opinions on that, as to whether the time has come for revising the limits now laid down?—I think perhaps there has been a little over-caution there too. If I remember rightly, the fiduciary issue of the Currency Note Department is fixed by statute at 14 crores, the amount having been increased by two crores a couple of years ago. I have always thought that the Government of India were perhaps somewhat over-cautious in this respect, and looking at the large proportions which the note issue have now reached, I think the amount issued against Government paper and approved securities might reasonably and without danger be increased to, say, at least one-third of the amount of notes outstanding. I mention this, however, with diffidence, and more as a matter for consideration than with any idea of forcing my views. I am no longer in any way responsible for the financial stability of the Indian Government, and I feel that this is a matter regarding which they must be the best judges. As to the amount of capital which could be raised in India annually, I think the time has come when this might also be reconsidered. Hitherto, from two to three crores was looked upon as the maximum of the actual amount which could be borrowed in India without unduly depressing the price of Government paper. But when it is considered that the 3½ per cent. rupee paper is standing at 95, and the 3½ per cent. Indian Sterling Loan is at 88, it would appear that there is not too much of the former upon the market at the present time.

10,860. There is another question about which I should like to have your opinion which arises in connection with the subject you were discussing just now, namely, the borrowings of the Government of India. I gathered from what you said that in your opinion it was important to restrict as much as circumstances permitted, having regard to the needs of Indian development, the borrowings of the Secretary of State in London?—As far as we possibly can.

10,861. Do you think that the needs for more capital could be more fully met by loans raised in India?—They have always been rather afraid in India to go beyond two or three crores, though I am not sure that we did not one year go up to four crores. The Government of India when they have been approached, as they have been approached every year, have always said they would like to make the loan as little as possible. They are rather afraid of the market going against them, and they are inclined to stick. I think myself they might try to get a little more money in India; I think they might go up to four crores a year. I am rather guided in my opinion here by the fact that the 3½ per cent. rupee paper, which has precisely the same security behind it as the 3½ per cent. Indian Sterling Loan, stands now, as I have said, at 95, and the Sterling Loan stands at 88 or 87. I just draw your attention to that fact as showing that the holders seem to be fairly sure about the exchange value of the rupee.

10,862. Now in regard to the suggestion for a State Bank; I do not know how much consideration you have given to the subject?—I cannot say I have given very much to it. I have heard the subject spoken of a good deal, and I have seen the very ingenious and very well thought out proposal of Mr. Keynes. Of course there is no difficulty about establishing a State Bank in India, but I am very strongly disposed to the opinion that there is nothing to be gained either from the point of view of the Government or from the point of view of the trade of the country by starting a State Bank in India. To put it briefly, the Government of India, through its district collectors and other public officers, receive the revenues and disburse the cost of administration, while the Secretary of State draws upon the Government of India for the funds required to meet disbursements in this country. The system, which has been a matter of evolution, works admirably, and it has the great advantage of being simple and not mixing up the Government funds in trade, and possibly getting the Government involved in some serious financial crisis, which might be the case if the country's balances were placed with an institution which lent them out with the object of making money, and found itself unable to get them back when required to meet the obligations of the Government. You get a bank rate running up to sometimes 8 per cent., but it does not stay there very long. The trade of India is a seasonal trade, and there is a rush for money to pay for purchases coming down from up-country, but that period is of very short duration. I think the exchange banks have done the work uncommonly well, and so far as my experience goes—some of the members of the Commission have had longer experience even than I have had of India—I have never found any difficulty in getting advances when I was able to offer good security. Of course you cannot get advances anywhere unless you have got assets to offer to your lender. I do not know what the Commission may do, but I think I would strongly urge them to leave the matter of the State Bank alone. I think the difficulty could be got over by letting the Presidency Banks have a little more of the Government surpluses (when they are available) at their disposal to ease the market. We have urged them at the India Office, on more than one occasion, to take some money from the Government and to lend it out in the market; but I think the Financial Member perhaps asked a little higher rate than the banks were disposed to pay, and I think only in one or two cases did they ever take the money. I think it would be very much better to leave the three Presidency Banks alone. If they do not have enough capital to finance the country, let them get more capital. There is not the slightest difficulty. The shareholders would double the capital to-morrow, or treble it, if it were required. They are paying very good dividends. There is no doubt that this proposal to amalgamate the three banks and turn them into a State Bank would be a very good thing for the shareholders, but I do not think it would be good for any other body. I would strongly urge that the Government of India should not go and mix their balances up with a State Bank. You have got no State Bank in this country; the bank you have got here does not lend out the Government money, but the Government borrow from them.

10,863. I have put this question to one or two other witnesses, and as your answer suggests it, I will put it also to you: At the present time the Indian budget is drawn on such lines as to provide the Government with sufficient funds at the time of year when it is poorest; if you take the English practice, we count upon borrowing from the market for a good part of the year, and repaying it when the taxes come in. Would you apply the English practice to Indian circumstances?—No, I do not think so.

10,864. I was not supposing that you went that length, but your answer seemed to justify the question?

—I think the Secretary of State would find himself unable to draw upon India very often. He would not be able to meet his sterling obligations.

10,865. Of course, the Indian Government does have to administer many matters which we are apt to consider banking matters and which cannot fall within the direct and immediate cognisance of the British Government?—That is so.

10,866. For instance, the note issue and exchange?—Yes; but it is all done very economically, and it is all done uncommonly well.

10,867. That is a question I wanted to ask you: You are a business man with large experience; what opinion, after your Indian experience, have you, as a business man, formed of the business capacity shown by the officials who are responsible for this work?—I have often wished that I had some of them in my office.

10,868. There is one subject which we have not touched at all, and that is the purchase of silver for coinage purposes. The purchase operations of the Government of India have been very spasmodic, have they not?—Yes.

10,869. Do you think that is unavoidable, or could they, if they give attention to the matter, buy more steadily and not come on the market at intervals for such very large amounts?—I think they could. We suggested, while I was at the India Office, to the Government of India that we should go on buying steadily and quietly when there was no demand on the part of the Government of India for coinage; let them make the forecast well ahead as to what the requirements would be likely to be, and then place the orders in the market quietly and buy it up. The Government of India negatived our proposal and it went by the board; but I think it would be much better if it were adopted. That is what we all do in business. We build our ships when nobody wants a ship; that is the time to build your ships, and that is the time to buy your silver, when the market is dull. We know that the demand is coming—it is bound to come; if you provide for it beforehand, of course, you lose a little in the way of interest, but if I had charge over the way, I should certainly insist on the Government of India doing it.

10,870. Would you coin the silver as soon as you have bought it, and sell the coined rupees, or would you hold the silver in reserve?—That is a matter of no consequence. You could buy at home for delivery six months ahead, or three months ahead. You could just have a contract, and very often you would not have to take it up, as you could put off delivery.

10,871. At present all the purchasing is done in London?—Practically.

10,872. Would there be any advantage in purchasing in Bombay?—No; none whatever. London is the silver money market. By purchasing in Bombay you would be only playing into the hands of the speculator.

10,873. I was reading a suggestion this morning from a witness who is coming before us, that Bombay is a much bigger market and a much wider market than London for silver?—I should prefer to buy my silver here.

10,874. (*Mr. Keynes.*) With regard to that last question about buying silver in Bombay, a witness, whom we have not yet examined, has written a memorandum on the subject,* pointing out that in London the whole market is in the hands of about four brokers, whereas in Bombay it is in the hands of a great number of independent persons. He gives that as his principal reason; he thinks there is a more open market in Bombay than in London. What do you say to that?—I should think those independent persons would very soon come together.

10,875. With regard to the loans in London; we have been informed that for the purpose of loans in London, railway debentures are taken at par, although their market value may be below par?—Yes.

10,876. Is that a good system in your opinion?—These are short bonds, not debentures.

10,877. They are debenture bonds?—They are really promissory notes, dated say, 1st January 1914, and repayable on 31st December 1916 or 1918.

10,878. I am speaking of bonds which may perhaps be two points below par, not more, and yet they are taken at par, so that a borrower can get more money than he has paid out in order to get the securities?—He gets a trifle more. You see, the security is actually good, because they are repayable by the Secretary of State himself.

10,879. (*Lord Faber.*) It is subject to a three years' discount, and it is not worth its face value if it is only repayable three years hence?—That is so. In all the lending we have had in my 14 years here, I think we lost about 50*l.* or 60*l.* in the way of interest; so there has been no practical disadvantage.

10,880. (*Mr. Keynes.*) I think we have had evidence that there were two cases in which there had been defaults on these loans, and that they were both cases of bonds which had been taken above their maket. value?—I think there were either one or two cases All the Secretary of State had to do then, was to retain them until they fell due, and then repay himself. The amount of interest lost was a mere trifle.

10,881. You do not think that the existing practice is open to criticism at all, then?—I do not think so. It had been going on long before I went there, and it was not disturbed.

10,882. (*Chairman.*) You say in that case all the Secretary of State had to do was to hold his own bonds and pay himself the interest?—Pay himself the principal—that is all.

10,883. (*Mr. Keynes.*) Eventually?—Yes. You lend to people who are supposed to have a very considerable margin in their own possession, beyond anything that is at risk. In this case, it was a man who turned out to be rather a scoundrel. When you come to think of the millions that have been lent on the market, I think you will see that the Secretary of State has done uncommonly well in having lost only that mere trifle. I do not think it amounts, at the very outside, to more than a couple of hundred pounds.

10,884. (*Chairman.*) It means, no doubt, that there is no ultimate loss practically?—There is no ultimate loss in capital.

10,885. Does it not mean also that the Secretary of State may have to go without his money at the moment that he wants it?—Of course, it has that disadvantage, and therefore you have got to be extremely careful to whom you lend. Of all the borrowers, there has only been this one man, or two men, by whom we had any loss.

10,886. (*Mr. Keynes.*) I notice, on reference to Mr. Badock's memorandum,* that India debentures, India bonds, and the guaranteed debentures of railway companies are taken at par, whereas Treasury bills and Exchequer bills are simply taken at market value, and then these various other securities are taken at a margin of 5 per cent.?—I think that has been in order to help the issues.

10,887. With regard to the remuneration of the broker, he gets a commission on the amount of interest earned, and you justify that on the ground that it is an incentive to him to use his best abilities to get the best rate?—That is so.

10,888. The interest he earns depends much more on whether it is a dear-money year or a cheap-money year, than on what he can do, does it not? Whether it is a cheap year or a dear year may make a difference of a thousand or two thousand to him, may it not?—Undoubtedly.

10,889. Whereas, when he is earning 7,500*l.*, if on all his loans by his ability he gets an extra $\frac{1}{8}$th per cent., that makes a difference in his income of about 300*l.* only?—Yes.

10,890. That is a mere trifle. The extent to which he can increase his income by his intelligence and assiduity is, therefore, very small indeed, and his

* *See* Appendix XXXIII., pp. 685-6.

* Cd. 7070, page 310.

income is almost entirely dependent on the volume of business and on the general price of money?—Yes, that is so.

10,891. Would you say, in view of that, that the argument that it is desirable to remunerate him in this way in order to get the best work from him, comes to very much, and that it is a good thing to pay him by commission on his earnings?—I think it is always a good thing to pay a man who is doing that sort of business by results.

10,892. Even when his total income being 7,500*l.*, the utmost difference he can make is 300*l.*?—Yes, I still think that. I think the principle is a good one. It is what we do in business: invariably people are paid by results.

10,893. I am showing that very little of it is a payment by results, and that for the greater part of the payment it is not by results?—Do you mean that he gets paid, whether he is diligent or not?

10,894. That the amount of difference his diligence can make is a very small part of his income. (*Lord Faber.*) Mr. Keynes's argument is that the money market rules him, and that if that is good, he gets very well paid?—If you have a very cheap money market——

10,895. (*Mr. Keynes.*) He gets a hard time?—Would you not say then there is more incentive for him to do well?

10,896. I should say that his income is largely out of his own control. If money is ruling cheap he cannot help it, but his income goes down 2,000*l.* or 3,000*l* that year?—Surely, the higher rate that he can get from the borrowers, the more is his income.

10,897. I am arguing that the amount by which he can by his honesty increase his income is so very little. (*Lord Faber.*) Whether he is a good broker or a bad broker does not much matter. It is the money market that rules things. If he is a very bad broker, he gets 7,400*l.*, and if he is a very good one he gets 7,600*l.*?—In my own experience, I have not found myself any less keen, although my income has been going up. I have generally tried to get the best I could in working my business.

10,898. (*Mr. Keynes.*) That cuts against the whole argument of reward proportioned to results. If he is going to be keen anyhow, the argument that you must apportion his remuneration to his activity falls to the ground?—If you have a man like Mr. Scott working in the money market, and you find him constantly about with the Accountant-General and the Chairman of the Finance Committee at the India Office, you will find, I think, that he is doing his best the whole time.

10,899. But your impression is that if he had a fixed salary he would not do his best?—There would not be the same incentive for him to do his best.

10,900. I suggest that there is a very small incentive under the present system, and I think you agree to that?—Yes. I have not gone into the figures, but no doubt you have.

10,901. With regard to the length of time for which the loans have been made, as I understand the procedure, you, as chairman of the Finance Committee, did not go behind what the Accountant-General told you; he would say, I can spare so much for two weeks, and you would then do your best for that money and would not check his calculations in any way?—That is so.

10,902. You have suggested, I think, that he was possibly somewhat over-cautious, and that if you had been making these calculations yourself, you would sometimes have lent the money for longer periods?—He would show me a statement showing that at certain dates he had so much to pay, and that he must be in funds to meet that. I would say to him, you will probably be selling 100 lakhs on Wednesday, so you will be 700,000*l.* better off than you expect to be. He would say, I never do take that into account, but the moment I get the money I place it at your disposal to lend.

10,903. Was it not unwise to have a cast-iron rule of that kind? I can imagine that there would be some occasions on which you had to act on the hypothesis that you would get nothing from Council bills, but was it not wrong to have a cast-iron rule to that effect?—I have already expressed to the chairman my views on that point. On the whole. I do not think Mr. Badock in any way sacrificed the revenues of India by the procedure he adopted.

10,904. But that, you say, was a lucky chance?—No; I do not think so.

10,905. In general, if you had an opportunity—I do not say you actually did—for lending money for three months, would you not expect over an average of years to make more money than if you only had to lend it for four weeks?—I do not know.

10,906. (*Lord Faber.*) It would depend on which three months of the year it was, would it not?—Yes.

10,907. (*Mr. Keynes.*) I am not assuming that you would be forced to choose the rate for three months; but at any moment, if you have the choice whether you will lend for a longer or a shorter period, would you not be able to do better in the course of years than if you have not the choice?—As I explained to Lord Faber—at least, it did not require explaining to him, but as he agreed with me—sometimes you will find it better to lend your money only for a fortnight, in the hope that the rate will go up. You are only going to get 3 per cent. for the three months.

10,908. Sometimes you may find it advantageous to lend for a fortnight; on the other hand, you may sometimes find it advantageous to lend for three months?—There cannot be any hard-and-fast rule in arranging these sorts of things. You have got to go by the circumstances of the day and the circumstances of the hour.

10,909. You would not say it was never advantageous to lend for three months?—No; I would not say that.

10,910. So if you had the choice, it would be an advantage?—No, not necessarily.

10,911. It must sometimes be an advantage?—Sometimes it happens that a bank or a borrower will take your money for two months and give you a better rate for two months than he will for three. I think Lord Faber will bear me out there. You cannot tell; it all depends on the money market of the day.

10,912. I think you miss my point. I am not saying it would pay to be forced to lend always for three months, but if in every transaction you have the opportunity of lending for a short or for a long period, that must be an advantage. You would not say that if your bankers never lent for more than four weeks that would increase their dividends, would you?—No; but there was no question of being forbidden to lend for any particular length of time. The money was lent out for the period and at the rate that was current in the best market.

10,913. As I understand, there was a cast-iron rule which led to the broker being always informed that he must not lend for more than four weeks, or six weeks, except in the case where loans were made to banks?—No. Are you speaking of loans made to private firms?

10,914. Yes; I am suggesting that if he had had the discretion to lend for longer periods when he judged it advantageous to do so, it would have paid the revenues of India?—The chairman of the Finance Committee did not interest himself in the loans made in the market. That was done entirely between the Accountant-General and the broker.

10,915. That I understand. I am putting no more than the point that if the broker was told on some occasions by the Accountant-General: Lend for four weeks or six weeks or eight weeks, whichever you think is most advantageous, that would have increased the rates which the broker could have got?—I am not sure. I think probably the market would not care to take the money for a longer period very often.

10,916. Very often, perhaps not, but if there were ever occasions when the market would?—I never was mixed up with it, or practically had anything to do with the lending of money on the market, so I cannot say. I got the statement of loans made in the market every week, placed before me by the Accountant-General, and it was then submitted to the Finance Committee; but it was not the duty of the Chairman of the Finance Committee to interfere between the Accountant-General and the broker in regard to these loans.

10,917. Has your general banking experience never led you to consider this matter?—To tell you the truth,

I am afraid I cannot say definitely how long he used to lend the money out for; I do not know.

10,918. (*Lord Faber.*) I think what Mr. Keynes means would be this: Suppose we in England had the option of lending money out in April of each year for a fortnight or for three months, we should certainly lend it for three months?—Yes.

10,919. On the other hand, if that same option was given to us to lend money out in October for a fortnight or for three months, we should lend it for a fortnight?—That is so.

10,920. It depends on the time of the year?—It depends on the time of the year entirely.

10,921. (*Mr. Keynes.*) I am simply suggesting that there are sometimes opportunities in which liberty to lend for longer periods is valuable?—I do not know—you probably know—for what period the money used to be lent out against these securities in the market.

10,922. It was very rarely lent for more than four weeks?—That may have been an arrangement which suited the market.

10,923. It was not done for that reason; it was done on account of this rule of the Accountant-General's?—That I do not know. I cannot speak to that.

10,924. You stated that some discretion had to be exercised in the placing of these deposits, as it would not have been to the advantage of the Secretary of State to hawk them about, and probably have refusals; I do not quite understand what was in your mind in making that statement?—If you go hawking money about all over the market, you cannot get such a good rate as if you have your own *clientèle* to lend it to.

10,925. Do you think that an extension of the list of banks, so far from increasing the rate you have got, would have diminished it?—No, I would not say that; but you have got to be very careful in your dealings. The list was extended, and I think after I went it was extended still further—it was raised to six or seven.

10,926. (*Chairman.*) Your meaning, I take it, is that if at a particular moment you have a particular sum to lend, and you try two or three people who do not want it and they refuse you, and that becomes known, that would place you in a worse position than if you had gone straight to the man who wanted it?—Yes, that is what I mean. You have got to be very careful how you work these things.

10,927. (*Mr. Keynes.*) I want to ask a few questions on this matter of the loans to banks which are connected with the India Council. It seems to me there are two questions which have to be kept in view, but which are quite distinct. There is the actual scrupulousness with which the business is transacted, and there is its appearance to persons who are ignorant of the character of the business involved, and of the details of the business?—Yes, that is so.

10,928. I do not think we have heard criticisms of the actual scrupulousness with which the business was transacted, but we have had criticisms of the appearance which such things would naturally present to the minds of ignorant persons. What is your opinion of these things from that point of view, in the light of the experience we have had since these things were done?—All that I would say in regard to that is that such a thing never occurred to me.

10,929. That is easily understood when we have not had the experience which we have had since; but in the light of subsequent experience, do you think that it is a wise policy for the Secretary of State to lend funds to banks which are represented on his Council—looking at it simply from the point of view of appearances?—I do not see any objection to it.

10,930. It would probably be possible to get as good rates from other banks on all occasions, would it not?—I think it would be a great misfortune if the Secretary of State were to be debarred from making use of a bank because a member of Council happened to be a director of it.

10,931. But if he could get equally good terms elsewhere, might it not be wise for him to go elsewhere?—No; I cannot see that it would, and I do not think that it would. If I were to agree to that, I should be condemning my former colleague and also myself. I really cannot see that there has been any harm done or that there is ever likely to be any harm done. As you say, it is ignorant criticism only that has been brought to bear upon this, and I think that ought to be absolutely disregarded. You know perfectly well that the whole thing, as you say, has been absolutely scrupulously honest, and it is ridiculous to go and say, because Sir Felix Schuster and Mr. Currie happen to be directors of two great institutions, there is to be no business done with those institutions. You will keep men off the India Council if you do that.

10,932. In these matters most of the critics are necessarily ignorant?—You cannot help that.

10,933. The details of the transactions are not of such a character that they must be apparent to everybody who is taking any kind of interest in the matter; and in such a case, when it is impossible to explain yourself to the critics, is it not wise to avoid things which even seem to require explanation?—You say it is not possible to explain; I think it is possible to explain.

10,934. It is a sort of point in which it is quite impossible to demonstrate that a given bank did not have the first offer or that it did not have much more favourable rates. Whatever the truth of the matter, if that criticism is made it cannot be logically rebutted; however untrue it is, there is no absolutely conclusive answer?—As I said, I think ignorant criticism of that sort ought to be disregarded in the interests of the revenues of India.

10,935. I have been very much interested in the position that you have put, that all the reserves ought to be regarded very much as one, and also that there is a danger of being extravagant in the matter of reserves. That is a standpoint with which I myself have very much sympathy, but almost every witness we have had has stated the opposite opinion; they have been inclined to distinguish the reserves rather sharply and to argue that there is much more danger of the reserves being too low than of their being too high?—I should call that ignorant criticism again.

10,936. I should like to suggest, in view of the very great prevalence of that sort of criticism, that perhaps the right thing to do is to keep the Gold Standard Reserve very liquid and very intact, and as time goes on to diminish the amount of sterling resources which one keeps in other ways. You have agreed, I understand, that 25 millions in the Gold Standard Reserve would not be enough if we had no other resources. Your argument is that as we have got 18 millions in the Paper Currency Reserve, 43 millions altogether is enough?—I do not go quite so far with you as that. You say I agree that 25 millions is not enough; but we withstood a very severe crisis when we had only 23 millions.

10,937. Still, you would not feel perfectly happy if there was not a sovereign in the Paper Currency Reserve and your Gold Standard Reserve represented the whole of your available resources, would you?—No, but that never was intended.

10,938. That being so, I suggest that a great deal more gold should be kept in the Gold Standard Reserve and less gold in the Paper Currency Reserve, that there should be no increase of sterling resources in the Paper Currency Reserve, and that as it became possible to hold more sterling resources in the Gold Standard Reserve the amount held in the Paper Currency Reserve should be correspondingly reduced?—I do not know what practical difference that would make.

10,939. It would make the difference that it would be intelligible to the ordinary critic?—There you are again. I would disregard him. If you want to make a change you can do so, but as far as I can see there is no practical gain. I think you admit that, do you not?

10,940. If there is no practical loss it is surely worth while to make your system more intelligible?—I do not see that it is. It is a matter of no consequence; you have got your 43 millions, and it does not matter where.

10,941. Now I should like to ask you a few questions on the proposal to have a State bank. You

hold, I think, that the present state of affairs was perfectly satisfactory; the ordinary criticism of a State bank is that while there are many things that are unsatisfactory in the present state of affairs, there will be great practical difficulties in the way of improvement; you, as I understand, do not take that line, but you think everything is perfectly satisfactory as it is?—That is my experience.

10,942. You see nothing to criticise in the present situation, quite apart from the practical difficulties of curing it?—I have seen nothing.

10,943. You do not think that the very high seasonal bank rate is disadvantageous?—I think if you take the average bank rate in India you will find it very much like it is here in England.

10,944. I am not saying that the average bank rate is higher; I am saying that the seasonal bank rate is high, and I am asking whether that is not a disadvantage?—Are you going to get over that by having a State bank?

10,945. That is a further question. I am now asking you, Are there any disadvantageous features in the present situation, and I suggest that perhaps a high seasonal bank rate is one of them?—There is no doubt it would be an advantage to the trade of India if the bank rate never went over 4 per cent.

10,946. Would it not be an advantage if it seldom went over 6 per cent.?—It would be an advantage to the trade of this country if the bank rate never went over 2 per cent.

10,947. Would it not be an advantage to the trade of India if the bank rate seldom went over 6 per cent.?—Yes, but 4 per cent. would be better.

10,948. But 6 per cent. would be a great improvement?—To what extent? You have the bank rate sometimes 7 per cent. for a few weeks; I have not gone into the figures, so I cannot say for how long.

10,949. I have not got the figures before me, but there have been long periods when it has been 7 per cent.?—Sometimes you have had it at 8 per cent. also for a few weeks at a time, and then you have it down. I think it is very difficult to get over that. With a great rush of produce coming down, with the jute season coming on in a great lump, with the rice season in Burma, the cotton season in Bombay, and the seed season all coming on, it is extremely difficult to finance, as Sir Ernest knows—to get what money you require within a given time.

10,950. I will come later to the question of cure; I am simply suggesting that here, *primâ facie*, is an undesirable feature in the present situation?—There are many undesirable features, of course, in all business. From the point of view of the man who wants to borrow, it is very undesirable to have to pay 8 per cent.; but from the point of view of the man who has the money to lend, it is rather desirable to be able to get 8 per cent.

10,951. I am not suggesting that it is the only undesirable feature; I am rather suggesting there are many others. For example, in India, as you know, the Government balances are locked up, and apart from the United States of America there is no other country in which that occurs?—But they are only locked up for a time; they are made available the moment Council bills are sold.

10,952. But in no other way?—There is a certain amount of them left with the Presidency banks.

10,953. But there is a large amount which is locked up; and you think there is no objection to that?—Occasionally they are locked up when the money comes rolling in, when the revenue is collected, but that does not occur for very long, and the moment there is a demand for Council bills to finance the trade of the country they are thrown open to the public.

10,954. There are occasions on which a large amount has been locked up for long periods?—There has been no demand for money then.

10,955. There has been no demand for Council bills?—That is so.

10,956. It has happened nevertheless when the bank rate was fairly high?—Is that so?

10,957. That is so?—It cannot have been for very long, because the moment the bank rate goes over 5 or 6 per cent. you find a strong demand for Council bills; at least, that is my experience.

10,958. (*Mr. Gillan.*) The last cold weather was an example of the occasion Mr. Keynes is putting to you. Council bills were restricted, but at the same time there was a very heavy demand for money in India?—How were Council bills restricted?

10,959. There was not much demand for them?—That is it; there was no demand for money. Council bills were not restricted by the Government of India or by the Secretary of State, but because there was no demand for money. If there had been any real demand for money for the export trade you would have found Council bills selling quite freely.

10,960. (*Mr. Keynes.*) If there had been any demand for money for the export trade, yes?—Or for the moving of the crops.

10,961. No, not necessarily in that case?—Surely.

10,962. Supposing it is the Presidency banks who want the money; they cannot get hold of it by buying Council bills, because they are prohibited by law from doing so?—That is so, but the Presidency banks are not the only banks that finance the trade of the country.

10,963. It is difficult to ask questions in regard to fact, but may I put it in this way, that while occasions in which the money has been locked up and is wanted have not come to your notice—if I am right in suggesting there have been such occasions—that is a matter for criticism?—I think that could be got over, as I said in the course of the Chairman's examination of me, by the Government lending out their balances to the Presidency banks, or placing them at the disposal of the Presidency banks, at a reasonable rate of interest, perhaps a little under the bank rate. With the Presidency banks and their large capital and their resources, I think there would be very little difficulty in getting it back.

10,964. Do you think it would be wise for the Government to lend in such large quantities as to affect the bank rate and at the same time to have no responsibility for what the bank rate was?—I think they had better not mix themselves up with the bank rate.

10,965. (*Lord Faber.*) Large crops have to be moved in every country in the world, and then money rates go up; that is the cardinal point in the situation, is it not?—Yes.

10,966. (*Mr. Keynes.*) You would have them remain aloof from the bank rate, but you would, notwithstanding, have them lending on what might be a large scale?—Yes, on a reasonable scale to each of the Presidency banks. I would not mind doing that; in fact, that is the system which has been advocated from the India Office in years past.

10,967. Now I turn to the question you raised a short time ago of the possibility of cure for the high seasonal bank rate. You pointed out that the average charge for borrowing in India is nothing to wonder at, and that it is rather low?—I have not got the figures; could you tell me what it is?

10,968. People say that the average rate of money in India all the year round is something like 4½ per cent. on good security, which certainly is not too high?—I have got two cotton mills in Madras and one in Bangalore, and they are financed to a very large extent, when they have got to buy their cotton, and, indeed, all the year round, at 5½ per cent. It does not seem to me that that is out of the way. When you have got decent security to offer you can get your money; when you have got bad security, or no security, you cannot get your money.

10,969. (*Lord Faber.*) You would have to pay that much at home?—We would. For something like 30 lakhs of rupees in and out all the year round 5½ per cent. is what we pay in Madras, and have done for years.

10,970. (*Chairman.*) When you say all the year round, I suppose you do not mean that you are paying five per cent. for a 12 months' loan, but that that is your average payment for the money that you want?

—We pay 5½ per cent. all the year round. We are able to give them ample security in the shape of cotton stocks and cotton piece goods, probably 20 or 30 per cent. in excess of the overdraft and earmarked for them, and our over-drawn balance is charged 5½ per cent. all the year round. I think that is a very good example of what you can get money for in India if you have got a decent security to offer.

10,971. (*Lord Faber.*) Do the banks there lend on piece goods?—Yes. We get 30 or 40 lakhs of rupees for the three mills, the Buckingham, the Carnatic, and the Bangalore. As for the security: our people tell them we have got cotton of such a value, and we have got twist and piece goods of such a value, and we always see that you are covered to the extent of 20 or 30 per cent.

10,972. Do you take warehouse certificates with you, or how?—No, they trust us absolutely.

10,973. Then it is what I should call an open loan?—It is an open loan on the *bonâ fides* of my firm and on the stocks that are there. There is no guarantee from the firm; it is simply on the stocks. They know that we are supposed to be fairly honest people and that we will not cheat. That has gone on for years—5½ per cent. all the year round.

10,974. (*Mr. Keynes.*) You agree with me then that the charge made for money in India is not high?—I do not think it is.

10,975. Therefore, your suggestion that the difficulties might be cured by new capital being raised by the Presidency banks is no cure at all, because they would have to employ this capital all the year round and there is no opening for employing a great deal more capital all the year round; is that not the difficulty in India?—I think there is an opening. There is the very case I have mentioned of these cotton mills and the woollen mill at Bangalore.

10,976. If they were to raise a very greatly increased amount of capital, there would be no particular opportunities for lending it at anything but rather low rates if they had to employ it all the year round. What is wanted is more capital just when the crops are being moved, not more banking capital in the slack season?—I maintain that that capital can be got by means of Council bills.

10,977. But there is no means by which the amount of currency in India can be increased from within India, as is the case in every civilised country in the world?—There is no means.

10,978. In France or in Germany when there is a temporary special demand for funds, the banks can supply that by issuing a greater quantity of notes?—I think the longer India keeps away from the German system of finance the sounder it will be for the country. I think it will be a very great misfortune for India if she gets into having her industries financed by a State bank such as the State bank in Germany.

10,979. I was not for the moment embarking on any so large a question as that. I was arguing that the high seasonal bank rate, which you admit is a disadvantage, is occasioned not by a shortage of banking capital all the year round, but by the complete inelasticity of the Indian system which makes it impossible to increase the trade purchasing power of the country temporarily when it is wanted?—Take the case of Egypt. What does she do when the cotton crops have got to be moved?

10,980. She is in the same state as India in the matter?—She does uncommonly well. You cannot get away from it—the money has got to go out, and the goods have got to come home; the goods have got to go to Europe, they have got to go to North America, they have got to go to South America, or to Australia or to China, and the money has got to be found by those countries who buy the produce.

10,981. (*Lord Faber.*) Egypt is worse than India, because, after all, Egypt has to import all the gold and then send it back again?—That is so.

10,982. (*Mr. Keynes.*) You say that the banking facilities in India are ample, and, as an illustration of that, you told us this morning that a man in your position, with ample security, can always get money. When people say that the banking facilities are not ample, I do not suppose they mean to deny that people in your position can get money on good security. They mean something quite different from that?—What do they mean?

10,983. They mean that there are a number of places in India where the banking facilities are small, and that the proportion of the population to whom those facilities are given is also small?—I may say from my experience in India that I have never heard any man complain that he could not get money when he had some security to offer. Banking facilities may not be good for those who have no property to place against a loan, but otherwise, in my opinion, there is no difficulty in getting money if you have got securities. I think it would be a great misfortune for India if we were to try and bolster up a lot of speculative business such as we have seen lately in Bombay.

The witness withdrew.

TWENTY-SIXTH DAY.

At the India Office, Whitehall, S.W.

Friday, 7th November, 1913.

PRESENT:—

The Right Hon. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir FELIX SCHUSTER, Bart., called and examined.

10,984. (*Chairman.*) You have had a long business experience and you are a member of the Secretary of State's Council and Chairman of the Finance Committee, I think?—Yes. I should like to say at once, if I may, that in any opinions I may express here I am speaking only for myself and giving my individual opinions. I have no authority at all to speak for the Finance Committee or for the Secretary of State in Council. As regards my business experience I have been engaged in a private banking business of an inter-

national character from 1872–1888. In 1888, I became a Director of the Union Bank of London, now the Union of London and Smiths Bank, and in 1895 I became its Governor (Chairman). I have been Chairman of the Council of the London Chamber of Commerce, President and Chairman of the Council of the Institute of Bankers, and am now Chairman of the Committee of London Clearing Bankers and of the Central Association of Bankers.

10,985. How long have you been connected with the Council?—I joined the Council in April 1906, and I have been chairman of the Finance Committee since July 1911.

10,986. I think I am right in saying that before 1906 you had had no official connection with the Government of India or the India Office?—Before then I had no connection with the India Office at all.

10,987. You are a business man; what is the impression that you formed on entering the India Office of the capacity with which the financial work of the office was transacted?—I came here, I think, expecting a good deal of what is commonly called red tape and unbusinesslike methods, which is perhaps a prejudice that prevails in the City and other quarters. I can say that I was very much impressed by the efficiency of the organisation and the great ability and businesslike manner with which the work was carried on by the officials. That first impression has been more than confirmed by what I have subsequently seen. I think I might take the opportunity of saying that after some 40 years' experience in the City, during which I have been in touch with some great business organisations, I do not think I can speak too highly of the organisation that I find here.

10,988. No doubt you would be struck by some differences in the way in which business is transacted. Perhaps the need for keeping records is more felt in a Government office and imposes some delay?—I do not think that I have ever found what can be described as unnecessary delay. The delay is inherent in the work itself, the great intricacy and the difficulty of the many questions that come before the Council and before the Finance Committee especially. It is absolutely necessary that precedents should be studied, and that each question should not only be dealt with on its own merits, but also in relation to the other questions that its consideration may involve. Some delay, of course, is necessary in looking up the precedents, and so on; and it is also unavoidable in consequence of the necessity of communicating with the Government of India from time to time. Frequently in our deliberations questions arise that we think we should like to have the opinion of the Government of India upon before we decide, and then there is some delay necessarily.

10,989. Do you think that more questions are brought before the Finance Committee than is really necessary? Could a part of the work which now comes before them be expedited by being left to be dealt with by officials?—That is my opinion. I think a great deal of time could be saved. There are a good many questions of minor importance which the officials are quite competent to deal with, and I should think that the Permanent Under-Secretary of State would have no difficulty in deciding what questions could be dealt with by the heads of departments and what questions should be brought before the committee, and in that way a good deal of time could be saved.

10,990. You will understand that my questions are directed always to the financial side of the business, with which this Commission, as you know, is concerned?—Certainly.

10,991. With a view to the delegation of the business, have you any recommendation to make as to the class of experience to be required among the officials?—I think that the Assistant Under-Secretary of State, or someone high up in the office, should be a man with considerable financial experience—not only the Financial Secretary, but also, if possible, the present system should be perpetuated in which the Assistant Under-Secretary of State is a man of considerable financial training, because there are a great many questions which do not come direct to the Finance Department but which involve financial questions of the greatest possible importance—such things as contracts for the Railway Companies, and so on.

10,992. Now I turn for a moment to the position of the Chairman of the Finance Committee; he, of course, derives his authority from the Secretary of State?—Yes.

10,993. And acts always under such powers as the Secretary of State may delegate?—He does; but he always acts in consultation with the Finance Committee, and with their concurrence. From time to time, in order to expedite business, certain very important powers are conferred upon the Chairman of the Finance Committee, such as fixing the price at which loans are to be issued, and in regard to the weekly sale of Council Bills the decision rests with him how many Council Bills are to be offered, say, on the following Wednesday, and so on. There have been some important questions in regard to which the Council has conferred considerable powers on the Chairman of the Finance Committee; but that is only to expedite business and to give him authority to act quickly when necessary. On all important questions of principle he would not think of acting on his own responsibility; he always acts with the concurrence of the Finance Committee and of the Permanent Under-Secretary of State.

10,994. I understand that when he acts on his own responsibility without consultation, he is in effect acting as the executive officer of the Committee on general principles laid down or approved by them?—On general principles approved by them. He acts, if I may draw an analogy, very much like the principal officer of a bank under his board. The Board decide on a policy, and they tell their managing director what line they wish to be followed. He is on the spot, and has to carry out that policy and to take decisions under their instructions, and then to report to them what he has done.

10,995. May I ask now some questions about the Chairman's responsibilities and action in regard to the loans which have been made from time to time, both to private borrowers and to banks. We had the advantage of Lord Inchcape's evidence yesterday, when he explained to us the system which prevailed in his time. I assume that that system is practically the one which now rules?—Yes, absolutely. Of course, I have not heard Lord Inchcape's evidence, but the practice is exactly the same.

10,996. I understood him to tell us, first, in relation to the loans to private borrowers, that it was the duty of the Chairman to consider and to report or reject any application which might be received from a firm to have their name placed on that list?—Yes, but not on his own responsibility. The applications are made to the broker in the first place, who reports to the office; then the practice is that the Accountant-General submits that application to the Chairman of the Committee, who makes his own inquiries; then he reports, and his report is submitted to the Finance Committee, who recommend to the Council; and then the recommendation is approved by Council. The Chairman of the Committee never admits anyone to the borrowing list on his own responsibility; he sends in his recommendation, which is generally carried out, but still he only submits his recommendation.

10,997. And his recommendation, and the approval given by the Council, would fix the limit within which loans might be given to that firm?—That is so.

10,998. In the case of the banks, Lord Inchcape told us of the circumstances which, while he was Chairman, led to loans being made to banks and to the steps which were taken to place certain banks on the list. I think your own bank was placed on the list at the time that Lord Inchcape was Chairman?—Yes, that is so.

10,999. Since you became Chairman, the names of some other banks have been added?—Yes.

11,000. Would you tell me exactly the procedure which you followed if the list of approved borrowers was, so to speak, full, and you still had money to deposit with the banks. How did you decide among the various banks on your list which one should be

given a particular deposit?—Until July 1911 deposits had been made with four banks. Very soon after I became Chairman of the Finance Committee, immediately after, I may say, it was found that the system which we thought was only a temporary one apparently was to go on for some little time. Then it was decided that three more banks were to be added to the list, and that the amounts on deposit were to be divided as evenly as practicable between all the banks. The practice was then for the Accountant-General to write to the broker and suggest an apportionment between the various banks. I never had the list and I never kept the list myself of the amounts on deposit at the various banks. That list was kept by the Accountant-General. No doubt the broker had a note of it, but I really could not dispose of the balances because I had not got the information. The practice was for the Accountant-General to write, A. bank has so much, B. bank has so much, and if you renew it would be better to place a little with C. or D. and so on. The broker came to me with those suggestions. Whenever it was possible to carry out the suggestions, that was done; but sometimes it was not possible, because the banks might not wish to renew the deposit at the given rate, and then we chose some other bank.

11,001. Suppose that the Accountant-General and the broker proposed to make an additional deposit with your own bank; what would be your position then?—Of course I considered myself in that matter as representing the Secretary of State and not my own bank. It was my duty to get the best possible rate for the Secretary of State. I, representing the Secretary of State, asked our manager or got the broker to ask our manager, What is the best rate you can allow for this deposit? I got that answer from him, without interfering myself in my position as a director of a bank. Having had that rate given by our manager I told the broker, Our bank will allow, say, 3½ per cent.; now that is the best rate from them; you try and get a higher rate at other banks if you can. He did, and I got the information from him that he had been to A., B, and C banks who would only allow so much; if that rate was worse than our rate, our rate would be accepted, but if it was better our deposit would be paid off. On several occasions certainly we declined it because it did not suit us to take it.

11,002. I wish to put these questions very plainly to you, because I think as a matter of fact Mr. Scott's evidence was not very clear, and I think he did not express exactly what he meant always. I understand that the broker never had instructions from the Chairman to go to the Chairman's bank and offer money at a rate without an assurance that no better rate could be got elsewhere?—No, the instructions were really the reverse of that. He was instructed not to accept the bank's rate unless he was satisfied that it was the best rate that he could possibly obtain in the market, and he was invariably instructed to go outside and approach other banks to ascertain that no better rate was obtainable, although, as a matter of fact, I knew pretty well what the fair rate would be, and so would he. The margin of profit was a very close one, not more than ⅛ to ¼ per cent. per annum. In placing these deposits with the banks which were chosen, we knew pretty well they could only invest them in one particular way. There is only one prudent and one safe way in which a bank would accept a deposit like that, that is to say, they would immediately try and buy three months' bank bills to cover their deposit. That is the only prudent way in which the bank would deal with large amounts. Perhaps I might say that it is rather an advantage to lend the money in that way, because when the deposit is finally paid back it is done with the least possible disturbance to the money market. The bank hold bills which mature by a date when the deposit is payable, and nobody knows when the money is called in. If you call in largely from other borrowers in amounts of 500,000*l*., as it might be, at one time, it would create a disturbance in the money market if they had to borrow the money elsewhere, whereas the deposit with the bank being paid off as the bills mature, there is no notice taken of it.

11,003. So that in your opinion the rate which any bank could give was necessarily governed by the rate prevailing for three months' bank bills, or was largely influenced by that?—"Any bank" goes perhaps too far—it should be any bank with whom we place the money. We did subsequently make enquiries when deposits were coming to an end; the broker went round to the various banks where deposits had been made and asked as a favour whether they would tell us how they had used that money, and they every one of them, said there is only one way in which we should use that money—we should at once buy bills with it.

11,004. In the case of the private firms on your list, you never lent, I think, without security?—That is so.

11,005. In the case of the banks, you made the deposit without security?—Yes.

11,006. Of course, that was the practice which prevailed before your time, and it was continued under your chairmanship?—Yes. As you say, the practice prevailed before my time, but I quite accept the responsibility as a member of the Finance Committee. I was quite aware of what was going on, and I checked the rates. They were all submitted to the Finance Committee and the Council, and I knew the rate was the correct and right rate, and if I had not thought so, I should have made some remarks about it.

11,007. Do you think it is right—this is rather a difficult question—for a Government Department to place large deposits of public money with a bank, without taking security against them?—That is entirely a matter of opinion. We went by precedents with which we were familiar. I believe most colonial Governments, and I know several foreign Governments, follow that practice. They have deposits with banks without security and in the case of some foreign governments I know them to be for very large amounts. The deposits could not have been placed in that manner against security, as the banks would not have taken them. We were thus able to employ the money at a fair rate, which otherwise we could not have done.

11,008. Do you feel confident that if the India Office had said that, having regard to their public responsibilities and position, they could only make these deposits against securities, the banks would have treated them like a private customer who made the same demand, and refused to entertain it?—Yes, I am quite confident of that. Perhaps you have noticed on the list of approved borrowers on security there were two banks; as a matter of fact, they have never availed themselves of that. They have not taken these loans against security, and recently they have asked to have their names taken off. I saw in the evidence that Lord Faber asked a question with regard to the account of the London County Council at one of the banks. I am familiar with that instance. It must be remembered that the London County Council has with that particular bank a very large and continuous working account, which is no doubt a very profitable account to the bank in question. I also happen to know, on, I think, undeniable authority, that very frequently the amount of the balance which the London County Council has kept with that bank has largely exceeded the amount of security given. It is a very old arrangement, which I think dates from the time of the Metropolitan Board of Works. In any case, here is an account running, and a very profitable account, whereas with regard to these deposits, there is no profitable account connected with them at all, and they are merely temporary things. The inducements to the bank to go out of their way to give security in that case are certainly not large. Speaking for the institution with which I am connected and for other banks, we certainly should not have done it, because we do not think it right to create any preferential creditors, and we do not do it at all on our deposits. The practice of these deposits was always considered a mere temporary expedient: as soon as the balances fell back to their normal size, it came to an end.

11,009. I want to ask you one other question in relation to the securities which were taken from the private firms. They were confined to the securities that were inscribed at the Bank of England, were they

not?—Yes until quite recently, when some slight retaxation of the rule was made.

11,010. Could you not have widened your list of borrowers, or their power to borrow, if you had been willing to take a similar class of security, but inscribed at one of the great Joint Stock Banks?—We have to be guided by the practice of the Bank of England entirely. It has been the rule, and I hope it will continue to be the rule, only to accept securities which are what are described as floaters by the Bank of England; that is to say, securities on which the Bank of England is ready to make advances at all times. We have to see, in the first place, that our borrowers are persons of good standing; secondly, that the securities are of a satisfactory character, and thirdly, also that in time of difficulty and trouble our borrowers, when called upon to repay, are borrowers who, when they have to go to some other channel, find the doors of the Bank of England open to them. For that reason, we ought only to accept such securities as are taken by the Bank of England for advances.

11,011. Is that quite what your practice has been? Mr. Cole, who was Governor of the Bank, in his evidence before us made this observation: (*Q.* 3365, Cd. 7069, page 157) "I see they"—that is India Office —"have put in Colonial Government securities. We, "at the Bank, have never accepted Colonial Govern- "ment securities as floaters, and I imagine that those "Colonial Government securities have only been put in "because the India Office broker finds a difficulty in "obtaining sufficient other securities. In so far as "the Indian Government are taking those Colonial "securities, they are departing from the principle that "we have always held at the Bank, that those floaters "should be confined principally, though not entirely, "to British Government securities"?—Those Colonial Government securities were only added quite recently to the list, and they do not include all the Colonial Government securities, but only a particular class—those that are payable at very short periods—within the next five years, I think, is the outside limit for which we take them. That is a special class of securities which, in case the worst happened, we can see through. At the same time, that matter is at present under the consideration of the Finance Committee also. The general list until last April, I think, included only securities which are taken by the Bank of England; but in April we added these short-dated Colonial securities which are very favourite investments in the city, but only to a limited extent. Personally, I should be inclined only to take securities which are considered as floaters by the Bank of England. It has been suggested that loans might be made on the security of commercial bills. I should be strongly opposed to such a course. No Government department could undertake the responsibility of discrimination, and the duty could not be delegated to the Bank of England, even if they would undertake it, which is doubtful.

11,012. I want to ask you a question now as to the general system. I should like to preface it by saying that no witness who has come before us has suggested that anyone concerned in these transactions has used his position improperly in any shape or form; but you are aware that there has been a great deal of criticism of the size of the balances in England, and a feeling in some quarters that India was in some way unduly deprived of the use of this money, and that it was brought over to London rather for the convenience of the London money market and London financial interests than for the good of India. Though nobody has suggested, as I say, that any improper use has been made by anybody in an official position of his official position, it has been put to us that the very fact that the Chairman of the Finance Committee is himself connected with a large London institution, and that others have been in a similar position, gives colour to this belief. Do you think that any steps could be taken that would prevent such a suspicion arising in anybody's mind?—That involves the entire question of holding the balances in London.

11,013. Assuming that there are balances to be held in London, is it necessary that they should be loaned out by the Finance Committee and the broker of the India Office, or would it be possible to use the Bank of England to do that work? If it were possible, that would relieve the India Office of a rather invidious task, and that would make it impossible for anyone to say that any institution was unduly favoured, or that anyone was unconsciously influenced by his connection with a private institution?—I do not know to what extent the Bank of England would undertake the business. As far as I am aware, they would certainly not take money on deposit. That is entirely against their practice, and also against the tacit understanding that they have with other banks. I think that part of the business would have to be excluded altogether.

11,014. Could they act as agents for the Secretary of State in Council for the loaning of such money as was available for loans?—I think it would be very expensive if they undertook the business; it would be a far more expensive method of carrying on the business than the present one, and still I do not think it would dispose of the charge that has been made, that the Finance Committee and Council of India are loaning out money in the London money market which had better remain in India. I think that charge would have equal force if the money was lent through the Bank of England, who would only lend to the same parties that we are lending to and make a profit to themselves out of it.

11,015. Do you consider it any great advantage to the London money market, when the India Office has such large sums to place out temporarily with them?—Yes, I do distinctly: I do not think there can be much doubt about it. There are two considerations that arise out of this—the general advantage to the London money market and to the trade of the country generally, and the advantage to the banks with whom members of Council happen to be connected. I think it is undeniable that these large amounts being placed in the London money market have benefited the market and have benefited trade generally, because it lowers the rate of interest generally when large amounts, 10 millions or 12 millions, are on the market. It has a considerable influence, it lowers the general commercial rate for bills, and that is an advantage to trade generally, and to Indian trade incidentally. I think Indian trade benefits by that quite as much as the trade of the United Kingdom. It has also this advantage to Indian finance, that these loans are to a large amount made on Indian security; therefore it encourages the market to invest in Indian securities largely, particularly as they are placed in somewhat advantageous positions as regards margin and so on. Therefore, I think to that extent India has benefited to a very large degree along with the London money market; I think it has been an advantage to India, just as much as to anyone else. But when you come to the other question of the advantage to the chairman of the Finance Committee, or to the members of the Finance Committee who are connected with a Bank, then I would say it is distinctly to the disadvantage of the institutions with whom they are connected. They are really working against their own interest. The very fact that your rate of interest is lowered operates against their own private interest as bankers, because it lowers the general lending rate, and bankers being lenders of money, it competes with their own operations, because these borrowers, instead of borrowing from the Secretary of States's broker, would have to go to the bank and borrow from them at a higher rate. So that, to that degree, we have rather worked against our own interests.

11,016. I think Mr. Cole of the Bank of England told us this Indian money was not regarded as good money in the city?—I do not know that I would agree with that altogether. I think it has been very useful; in fact, we do get higher rates from brokers because they think that it is "good money" for some consider- able time.

11,017. One other question that we have had to consider has been the desirability or otherwise of the creation of an Indian State Bank. It has partly been pressed upon our attention from the point of view that

it might relieve the Indian Government of some of what I may call its banking duties. I should like you to be good enough to give us your views on the general question of a State Bank?—I do not entirely agree with the view that the Indian Government is carrying on a banking business, except as regards the Savings Bank; that is the only banking business I can think of that the Government does at present. Under present conditions, I do not think that the Government can delegate certain responsibilities and duties to any bank: I know that the scheme has a great many attractions; it is a very attractive one to me in many ways. It is a minor point, but the lending out of the balances of which we have spoken at the present moment could, of course, be done by a London branch of the Indian bank with great advantage, and to a minor extent the Government would be relieved of certain responsibility. This is one of the attractions in the scheme, but that is only a detail and a small matter. There are two things, I think, which could not be delegated—the responsibility for the safety of the note could not be delegated under any system to the State bank, and also the responsibility for the maintenance of exchange. For these I think the Government of India, and ultimately the Secretary of State in Council and Parliament, must remain responsible. I cannot conceive of any bank note being issued in India for which the Government must not assume ultimate responsibility; nor can I conceive that the duty of maintaining exchange could be delegated to a bank; but if it was, and the bank did not carry out its obligations, the Secretary of State would be made responsible, and although he is ultimately responsible, he would have no authority to carry out his own policy. I cannot quite believe in Government Directors and so on. I think their functions would be very much hampered; they could not carry out the policy of the Government with such authority as the Secretary of State could do, and you would have responsibility with very much lessened and diminished authority. Then I think it is a question of capital. It has been suggested that the three Presidency banks should be amalgamated, but that would not give you a larger capital, and I do not think it would give more security to the deposits of Government funds with that bank. It has been suggested that a bank with very large capital might be organised; 14 millions was, I think, the figure that was given. In the first place, there would be a great difficulty in finding that large capital at the present moment, and there would be a very great difficulty in earning a suitable dividend for a State bank with such a large capital, unless that bank went into business—commercial business—which it is much more desirable for private institutions to go into, than for a State bank. Such business is much better done by a number of private banks. The functions of a State bank ought to be limited to certain transactions which are not of a very profitable nature, and I do not quite see how it could earn any dividend for a very large capital. Then you would at once have a conflict on the board and on the management between their duty to the shareholders and their duty to the State; such a conflict is not unknown nearer home—it does arise, and I think that would be much more pronounced in India.

11,018. I think you have expressed the view also that there would be difficulty in finding a competent management and directorate in a country like India?—I have no Indian experience, but I am informed that it would be even greater in India on account of certain local conditions there than it is at home, and I think at home it is not always easy to fill these offices satisfactorily. Then there is the great extent of country, and also the diversity of requirements in various parts of the country, which would strongly militate against the efficiency of a State bank. In the discussions which are now taking place in the United States on this great question of a central bank, I read that, so far, opinion has prevailed against the establishment of a central bank, because of the extent of the country and the diversity of the demands and of the habits of the people. The feeling certainly there all through the country is strongly against the establishment of a central bank. We have no central bank in the United Kingdom at all. There is the Bank of England, which only extends to England. In Scotland there is no State bank at all, and a Bank of England note is not a legal tender in Scotland. They have got their own banking system in Scotland. Then there is Ireland with its Bank of Ireland.

11,019. I do not know whether it is within your knowledge that some inconvenience is caused to the Government by the fact that there is no central or State bank in Scotland?—That may be so, but on the whole the trade of the United Kingdom has prospered very well under the present system.

11,020. (*Lord Faber.*) As regards the position in the United States, I rather read it in this way: There has been a conflict between one State bank and a State bank divided into several large pieces, if I may say so, and at present the one State bank is in the ascendant. That seems to be the quarrel now—not whether there is to be a State bank or not, but whether it is to be a State bank in one place only or a State bank divided into three or four places. I may be wrong, but that is the impression left on my mind?—It is very difficult to follow the whole discussion. I have tried to read the evidence which has been given, and I have had some private letters on the subject, and it is really from private information that I derive the opinion that I have expressed, that, although a good many advocate one central bank, the feeling generally all over the country is very strong against the establishment of one central bank. What is at present the official proposal is that there should be 12 different banks, and Mr. Vanderlip has strongly advocated the reduction of that number 12 to four. I think quite lately the Committee of the Senate, or whatever the body is that is deliberating on it, has by a very small majority decided to report in favour of the four rather than of the 12, but I do not think there has been any decision in favour of the one central bank.

11,021. (*Mr. Keynes.*) We all know there are great political difficulties in the United States. In the matter of banking would you hold up the United States as what you might call a model in these matters?—Certainly not; one would not hold up any country as a model. I think each country must devise its own system quite independently of the system that may prevail in other countries. I am very strongly in favour of each country settling its own affairs in its own way according to the needs and habits of the people. I had to give evidence before a United States Commission on that very point, and that is the one piece of advice I ventured to give them: Do not follow other countries too closely, but devise a system which corresponds to the needs of your own country. I think that applies to India quite as much as to the United States; in India too I think if would be a very grave mistake to follow other models closely.

11,022. I have always thought the general opinion in this country was that they had a very bad and indefensible banking system in the United States, but that there were great political difficulties in the way of altering it?—That is so, no doubt.

11,023. In the case of the Bank of England you say it only extends to England and Wales; of course that is true of the note issue, but for all intents and purposes it is the bank for Ireland and Scotland, is it not?—I do not think so.

11,024. Are not the banks of Scotland and Ireland in a crisis dependent on the Bank of England very much in the same way as the English banks are?—Inasmuch as it is the largest bank in the country, its interest would be to prevent financial crises in any part of the United Kingdom. It is really a matter for the Bank of England rather than for others to express an opinion upon, but I rather doubt whether the Bank of England would hold that in a crisis their duty towards the Scottish banks was equal to that towards English banks.

11,025. Do you think the relation of a Scottish bank to the Bank of England is different from the relation of, say, a Lancashire bank to the Bank of England?—Yes, I should say so.

11,026. It is quite new to me, and I am interested to hear that that is your opinion?—In practice of course the Bank of England would voluntarily do what they could to prevent a crisis in any part of the United Kingdom. Still we are rather discussing the question of the State bank from the point of view of the issue of notes and from the point of view of holding Government deposits. In Scotland the Government deposits that may come in are held, I believe, by the Scottish banks in turn; I believe every year there is a different banker of the Government. Therefore, to that extent you have not got a general banking system prevailing over the whole of the United Kingdom.

11,027. Of course in England the note issue is the least important of the bank's important functions. Would you not say that it would voluntarily extend help over the whole of the United Kingdom in the only things that really matter?—That involves a very difficult question as to the functions of the Bank of England in a crisis, and it is rather outside the scope of this inquiry, if I may venture to say so. When one is discussing banking and trade generally, the doubt is expressed whether the Bank of England now is in the same position that it was in, say, 50 years ago; and as the Commission are aware, bankers are now considering the question of additional gold reserves and matters of that kind which do not directly enter into their own province as bankers, but with a view to strengthen the general situation.

11,028. (*Chairman.*) I turn now from that question and come to the question of the gold mint, which perhaps we can treat more shortly. Are you in favour of the opening of a mint for the free coinage of gold in India?—Here again I speak with a certain amount of diffidence, because I think Indian experience is necessary to have a well-reasoned opinion on that point. Speaking from general observation, I am not in favour of it, because I do not see any advantage in it. I think sovereigns are freely provided for circulation under the present system without cost. The 10-rupee piece would not be suitable for export at all, and I think it would be a very expensive coin to put into circulation, because with the lighter coins, of course, the risk of loss of weight is very great. That 10-rupee piece would compete with the circulation of the 10-rupee note to a large extent. I think the policy should be to extend if possible the circulation of the notes rather than that of gold. I speak with a certain amount of hesitation when I express the opinion that I think the former practice of receiving gold bullion at a fixed price against rupees should be revived. My reason is that I think the only ground which I can see for a gold mint is that holders of gold bullion at present have no market for it when for any reason of panic and so on they wish to dispose of that gold bullion. I do not know whether that revival is possible or not, but it would remove a grievance. If they had a mint they could get the bullion coined, but I say, instead of having a mint, take the gold bullion at a fixed price as you used to do. If public sentiment in India is strongly in favour of a gold mint I should prefer—notwithstanding the cost—that sovereigns should be coined.

11,029. I think you said the object of the Government should be, in your opinion, the steady increase of the note circulation?—That is, I think the aim we should have in view.

11,030. Where actual coin is required, do you prefer that the coin should be gold or rupees?—Gold I should say. A certain amount of rupees must necessarily always be in circulation, because it is a much smaller coin; but as a matter of choice I would prefer gold. I think that that is the ideal which one would like to aim at. If sovereigns circulate to a large extent I think they will in times of difficulty come forth and even be available for export—at any rate the greater the amount in circulation the smaller the risk of a panicky run for gold in the banks and currency reserve.

11,031. I presume your reason for recommending a note circulation is that it is economical?—Yes.

11,032. To the Government?—It is economical generally.

11,033. Compared to gold a rupee circulation is both economical and profitable?—Yes, but I do not think the Government ought to make profit out of coinage. It is not really profitable, because hitherto we have used the profit to build up the gold reserve, and the only profit arises out of the interest which the invested part of the gold reserve earns.

11,034. Do you think there is a great disadvantage in what you call an artificial currency, that is to say, a token currency, employed in internal circulation, provided your reserves are sufficient to guarantee the stability of exchange?—Yes, I think there is a disadvantage in it. It is an artificial debased currency, if I may use the term. You can hardly call it a token currency as we do at home, because here your legal tender is limited to 2*l.*, whereas in India you have got your silver currency legal tender to an unlimited amount.

11,035. That is in your mind a fundamental distinction between the two, is it?—Yes. It is an artificial currency, and that necessitates all this system of a special reserve and of special measures by Government to keep up your currency. The best system no doubt is where no artificial measures are necessary at all, but where your currency consists of coin the face value of which is its bullion value, which can be exported at times of pressure. That at once removes the whole structure of artificiality which surrounds and must surround your present system.

11,036. Before that point would be reached in the Indian system, there would have to be an enormous extension, would there not, of the gold currency?—I am reluctant to express any criticism on the system that you have at present, as I do not see that you can avoid it. It is in my opinion by far the best system that could have been devised, and I think it works admirably. I am speaking rather of an ideal to be attained in the distant future than of anything which you can arrive at within a measurable distance of time at all.

11,037. In the meantime, your view would be that stability of exchange must be provided for by the Gold Standard Reserve?—Certainly, but I would limit the coinage of rupees as much as I could. I do not think the additional coinage of rupees ought to take place until the public demand is very clearly demonstrated and brought home.

11,038. Does it ever take place except in response to a public demand?—It is very difficult to estimate the future public demand. If possible you have to estimate it beforehand and meet it. That has been one of the difficulties of the whole situation. It has been urged several times that the Government ought to buy silver regularly in fixed quantities year by year in order to avoid fluctuations. I do not think it possible to do that. We are in a period of transition now, and we have been for a number of years; we could not know, and nobody could know, to what extent the sovereign would take the place, or will take the place, of the rupee. Therefore, if you coin rupees in fixed quantities year by year you may have a redundance of that coin altogether, and the public may not want it. I think in 1906 too many rupees were coined, and it took some years to work them off; then the general opinion in India certainly was that no more coinage would be needed until 1912 came.

11,039. What would you say as between the regular coinage of so much silver a year without regard to the demand of that year and the present system, which has led to no coinage at all and no purchases of silver for a considerable period of years, and then a tremendous run on the silver market, with the consequent natural disadvantages to the Government as a buyer?—I would rather meet the demand when it is proved than anticipate a possible demand. I do not think the Government have any right to speculate in silver and say: We may have a demand at a future time. I think it is best to wait for it.

11,040. On the other hand, if they wait very long, does it not become clear to everybody interested in the bullion trade that they will soon have to be purchasers,

and purchasers on a very big scale? It may be that under those circumstances the Government of India do not speculate, but does not everybody from whom they have to buy, speculate?—I think the Government of India should be in just as good a position as the speculator to estimate the possible demand. If the opinion of the Government of India is that this demand will arise, of course then silver will be bought in time, and I think it ought to be. Here we have always been guided greatly in that matter by the opinions of the Government of India; and I think in 1911, and until quite a late period, they were strongly of opinion that no further coinage was needed.

11,041. Arising out of that, I want to ask you a question which deals with a part of the reserves. There is in the Gold Standard Reserve a certain amount of silver, as you know?—Yes.

11,042. The original purpose of the Gold Standard Reserve was to maintain exchange?—Yes.

11,043. And the silver is not required for that purpose?—No, it is not.

11,044. It was put there, as I understand from the evidence we have had, in order to provide for a sudden demand for rupees?—Yes.

11,045. Why was it not used when the sudden demand came?—I confess when I came to the India Office I had very great difficulty in understanding that silver portion of the Gold Standard Reserve. I think the Government of India from time to time showed convincing reasons why that portion of the Gold Standard Reserve was kept in silver. I think you have had official evidence on the point, and I should not like to express any further opinion except to say that to my mind personally that subject presents a very great difficulty, and, of course, one would, speaking from a general point of view, rather see it in gold than in silver. I subordinated my individual opinion to the opinion of the Government of India in the matter that it has been desirable that it should be kept in that form.

11,046. I think we all agree with you that the presence of silver in the Gold Standard Reserve has presented probably a difficulty to everybody who has had to consider it for the first time, and it is perhaps responsible for some of the misunderstanding and mistrust which has existed in India. I do not want to press you to speak more definitely than you yourself feel inclined to do, but I would like to ask again whether, having regard to the fact that when this great demand for silver came, that reserve was not used, although it would have appeared to have been created for the very purpose of being used in such an emergency, you do not think the time has come when the silver in the Gold Standard Reserve might be exchanged for some of the gold in the Paper Currency Reserve?—That is my distinct opinion; I think it ought to be. I would like to see it replaced by gold and held in India and I would have it in the Paper Currency Reserve.

11,047. As regards the location and management of the general balances and reserve funds, you have seen, I think, from what you have said, the evidence of the official witnesses which we have already received and published?—Yes.

11,048. Do you concur in that evidence generally?—Entirely. There is very little I would like to say about it, but there are some points which perhaps have not been brought out so very clearly which have been always present to my mind, during recent years at all events, in regard to the conditions of the financial market generally. Our railways involve, as you are aware, annual borrowings of very large amounts, and of recent years it has been very difficult to carry out that policy with any satisfaction so as to keep up the credit of India. That always has to be borne in mind, and it was an additional reason for keeping balances on this side, so as not to be pushed and have to borrow whatever the market conditions might be. Then there was the European political situation, especially in 1911. I do not think our critics have paid any attention to the political situation which prevailed then, but it certainly was a time when one had to use every possible precaution in financial matters. In the year 1911 there was a deficient rainfall, there was a threatened famine, and there was exceptional expenditure in connection with the Coronation Durbar. I remember a discussion at the time in the Finance Committee very well. It was for that reason that certain India Bills were renewed for six months, which might, in the light of subsequent events, very reasonably have been paid off. It was a matter of doubt at that time, but with the possibility of a European war and great expenditure and a possible famine in front of us, we erred on the side of caution, as I think it was our duty to do at the time.

11,049. But, looking back on it, you would say that you might have been a little less cautious without injury?—Looking back on it, that is the only part where, I think, a different policy might have been followed, and we might have paid off certain India Bills a little sooner. But it was done with full deliberation and after full discussion in our Finance Committee, where we considered it from every point of view.

11,050. What is your feeling as to the amount of the balances which you ought to keep normally in hand?—I have a strong personal feeling that our balances ought to be larger than they are at the present moment. I should like to have approximately a year's prospective capital outlay on the railways in the balances, so as not to have to live from hand to mouth and be compelled to borrow in an unfavourable market. This is a view which has never been discussed, and has not been approved by the Finance Committee; I have not positively brought it forward, as it was not the time to do so. The magnitude of the balances in the last few years has been entirely explained in the evidence that has been put before you. It was due to windfalls in the shape of opium revenue, and to unexpectedly good revenue from railways, and also to the land revenue. There is another point in connection with the balances which ought to be considered, and that is that the liability of Government for the Savings Bank balances, which I believe amount to something like 12 millions or 13 millions, is a liability which is not provided for at all.

11,051. You mean which has no specific provision made for it?—It has no specific provision made for it, and in case of bad times there may be, I will not call it a run on the savings bank, but a natural demand for repayment, and then that amount will have to be paid out of Government balances, so I think it ought to be taken into consideration in estimating.

11,052. Therefore, in addition to all the other purposes which the Government balances serve, they are in fact the only reserve for all the money which lies on call at short notice in the savings bank?—Yes, that is so.

11,053. Now as regards the location of the balances, I understand that you agree with the official witnesses who have come before us, and who hold that the Gold Standard Reserve should be held in London?—Entirely.

11,054. Do you care to give your reasons for that view?—I really think the reasons have all been given by the official witnesses. The main reason for the necessity of keeping the Gold Standard Reserve on this side, and for also keeping here part of the Currency Reserve and a large balance, is the one of keeping exchange at par. The eventual disturbance of the ordinary course of trade through failure of crops, and possibly for political reasons, must always be borne in mind, and even the remote contingency of a war cannot be entirely disregarded. In time of difficulty the pressure would be felt here mainly for the purposes of keeping exchange at par. It is essential to remember that India is a debtor country and not a creditor country, though I think during the course of this inquiry that statement has been questioned.

11,055. A great many witnesses have insisted on the opposite view, so perhaps you would explain yours?—My definition of a creditor country is one which, given an even balance of trade, or disregarding trade altogether, can draw upon other countries for interest

on invested capital. That is the position of England. A debtor country is a country which under similar conditions has to pay to other countries interest on borrowed capital. India belongs to the latter category, not only to the extent of the home charges of the Government and the interest on the public debt and on the railways, but as regards the profits of all the leading banking institutions, the foreign, that is to say, non-Indian, profits of trading firms, the interest on the deposits they hold, and so on. The exchange of such a country is in times of shortage of produce for export naturally much more vulnerable than that of a creditor country, especially where you have an artificial currency which is not available for export in times of pressure.

11,056. We have had it urged upon us from several quarters that as long as there are the large balances which we have seen, they should not be lent only in London but they should be made available also, to some extent at any rate, in India. What is your view of that suggestion?—As far as my personal opinion and the view of the India Office go, it has always been to carry out the views of the Government of India in that matter. If the Government of India at any time suggested the possibility of lending in India, certainly there would have been no objection on this side whatsoever; but I think at various times they have expressed an opinion that it is not desirable to do so. I think loans could be made from two sources, that is, from the Treasury balances in the first instance and also, I think, from the Currency Reserve.

11,057. Let me ask you first whether you have formed in your own mind any idea of the sum which could be safely and usefully lent out in India under those circumstances?—No, and I could not do it because I have not got the information.

11,058. Am I to understand that you would confine the advances by Government to the Presidency Banks?—Here again I would rather not give a strong opinion of my own, because I have not the necessary information. It seems more natural that in the first instance, at all events, loans should be confined to the Presidency Banks, because once you go outside them it is very difficult to draw a limit. That seems to me to be the reason. I think it ought only to be made against security, and I think it ought only to be made at a date when there is a very high bank rate. It ought not to be made in ordinary times, because otherwise trade would naturally expect to have those advances from the Government, and I think trade might be disappointed in bad years when the amounts would not be available. It ought only to be made available to tide over a crisis. The advances should only be temporary, and only when the rate is high; otherwise I think the trade ought to supply its own needs.

11,059. There is some force, is there not, in the contention which has been put before us by a good many witnesses, that under present circumstances the Government of India is not quite neutral, so to speak, in the matter of the bank rate? It is put to us that, owing to necessity, they collect a large portion of their revenue, the land revenue, just at the moment trade is at its busiest, and the demand for money is greatest; that they are not able to issue that money to the market at once, as their obligations do not mature at once; and that it is not merely that they do not supply the market with funds, but that they withdraw funds from the market in the shape of taxation just at the moment when the market needs them most. Is there not some force in that contention?—There may be, but it has to be borne in mind that that is a condition which prevails in every country in the world. It prevails here to a very large extent.

11,060. Does it prevail here in quite the same way? Here, of course, the Government finances itself by Treasury bills, by borrowing for a large portion of the year; when, therefore, the mass of the income tax is collected, it does not remain shut up in the treasuries or the Bank of England, but is at once disbursed in paying off the debt which the Government have incurred?—That is so to a moderate extent. At the same time you have an abnormal condition in the money market at the time of the large revenue collections from January to the end of March. I think statistics will show that that is the time when the bankers' deposits are depleted; the money goes out of the balances all over the United Kingdom and flows into the Bank of England, and that has a dislocating influence on trade generally. It is the time when bankers cannot supply the trade of the country to the same extent that they can at other periods of the year, and the money is in the Bank of England, which uses it, but uses it in a different sort of way, and it does not flow back through the same channels. I do not wish to express an opinion on that system at all. I only mention that in reply to what has been said about India, in order to show that it is a condition which is almost inevitable when your collection of taxes takes place at a certain period of the year. You then collect a large amount of revenue, which flows into one channel, and it must take some time before it flows back into the ordinary channels of trade.

11,061. That is a very interesting view, and I am glad you have put it to us; but you do think, do you not, that some assistance might be give under proper conditions and restrictions?—Unquestionably.

11,062. Either from one or both of the two sources?—I think from the two sources.

11,063. That is, from the balances and from the Paper Currency Reserve?—As long as it does not interfere with the ordinary business of the Government and the ordinary policy of the Government as to holding their general balances, and also having regard to exchange policy, which I do not think ought to be interfered with. There is a certain advantage in it, but there are also some drawbacks. If one's trade generally depends upon Government action, the view which trade might take, that it can depend on Government action in times of difficulty and crisis, I think would involve a certain amount of risk and danger. It must not be taught to depend on Government assistance.

11,064. You think it must be quite clearly understood by everybody that the Government only lends when it can do so as a convenience and advantage to itself?—Yes, that is so, and that the advances could only be temporary.

11,065. Now as regards loans from the Paper Currency Reserve; at the present time the fiduciary portion of the Paper Currency Reserve is fixed by statute, as you know?—Yes, at 14 crores.

11,066. Do you think the time has come to reconsider that figure?—Yes, I think the time has come when you might have a more scientific system, that is, a system of proportions which does not depend on legislation at a given moment.

11,067. What is the proportion that you would suggest for consideration or adoption?—I have gone into the position of the leading banks of Europe during this last month of October, and I find that the proportion of bullion to circulation was in England about 65½ per cent., in France 72 per cent., in Germany 71 per cent., and in Russia a little over 100 per cent.

11,068. Those figures relate to what date?—To the middle of the last month of October.

11,069. In the figures that you give in relation to the Bank of England, you have taken, have you not, the gross circulation of the notes?—Yes, and I think that is the right thing to do.

11,070. The net circulation was more than covered, was it not, by the gold reserve at the Bank of England, owing to the fact that the amount of notes in the reserve exceeded the fiduciary part of the issue?—I have considered that point, but I think for the present purpose it is necessary to take the gross circulation, because the notes in the banking department of the Bank of England I think for this purpose must be taken as part of the active circulation, as they can be issued at any moment.

11,071. Proceeding on those figures, what inference do you draw from them?—I should like to say that I also bear in mind that I think the present proportion of the fiduciary issue is about 20 per cent., that is, I think, the 14 crores represent that. I do not think in a country like India the fiduciary issue ought to be

quite as large as in a country where banking is very highly developed. I think you are exposed to greater risks there, and I would suggest that an elastic figure might be adopted, varying from 20 per cent. to 30 per cent., 30 per cent. being the maximum. I would invest the 20 per cent. permanently in Government securities, and the remaining 10 per cent. I would use in time of pressure in temporary advances, so that a certain power would be reserved to Government to make a fiduciary issue in that manner by temporary advances.

11,072. I pass now to the amount of the Gold Standard Reserve. Do you think that any limit could at the present time be wisely fixed for its growth?—I do not. You cannot limit the amount of trade. I believe and I hope that trade in India when railway and irrigation development is made will develop to a degree that is quite unexpected now; if it is so, and if there are large issues of silver currency, then I think your Gold Standard Reserve must be increased proportionately.

11,073. Therefore you would place no limit to the Gold Standard Reserve?—I would place no limit. At the present moment we are aiming at 25 millions, and when that point has been reached I think it ought to be very carefully considered.

11,074. As regards the amount of actual gold held in reserve, are you satisfied with either the amount at present existing there or the figure which has been for the present laid down?—No, I am not satisfied. Of course, if you add to it the amount of gold in our Paper Currency Reserve it represents a very large amount, but I do not think that is quite the right way of looking at it. I think that the two reserves must be considered as separate and independent of one another. In connection with that perhaps I might say, as the question has been asked whether the two reserves might not be amalgamated, that personally I do not think they ought to be; I think they serve a distinct purpose, and they ought not to be mixed up. You would get an erroneous conclusion, and the amount would appear so large that perhaps at some future time precautions which now seem necessary might be abandoned. I would like to keep them separate, therefore. I am only speaking of my individual opinion, but personally I do not think that the amount which we are now aiming at, 5 millions, is sufficient. I would like to see that amount increased to, say, 8 millions or 10 millions. If subsequently your Gold Standard Reserve was in excess of the 25 million limit, then I would fix the amount of gold held at a certain proportion of the total, say one-third of the total to be held in gold and the rest invested.

11,075. Are there any other observations which have not been brought forth by my questions which you would like to address to the Commission?—There is the question of the relations with the Bank of England.

11,076. Perhaps you would make any statement you desire to lay before us on that subject?—I am certainly very reluctant to deal with that subject at all, and I would rather have avoided it altogether. Mr. Cole, in reply to certain questions beginning at (*Q.*) 3512,* spoke of mistakes having been made which in his opinion ought not to have arisen. I think in justice to the India Office there ought to be some explanation given. There was an unfortunate misunderstanding as to the interpretation of certain correspondence which had taken place in 1906, but for this misunderstanding I do not think the India Office was to blame. A verbal arrangement had been come to between the Chairman of the Finance Committee and the Governor of the Bank of England for the time being, of which no one at the India Office in 1912 had any knowledge, and neither the note of the Chairman of the Finance Committee nor the official correspondence contained any reference to it.

11,077. Was this an arrangement in relation to the purchase of silver?—That was an arrangement in relation to the purchase of silver. I believe it is usual when a verbal arrangement is made that it should be subsequently set out in correspondence, and that what is set out in the correspondence shall be taken as the guiding principle in the matter. A verbal arrangement is only confirmed by the correspondence, and the correspondence at the time and the notes of Sir James Mackay, at present Lord Inchcape, contained no reference to that arrangement to which subsequently the Bank of England attached so much importance. Before deciding on the course which was eventually taken with regard to this transaction, that correspondence was carefully considered by the Finance Committee and the Permanent Under-Secretary of State, and legal opinion which we obtained subsequently confirmed the view that the contention of the Bank of England could not be sustained. I may add—again I confess I do it very reluctantly, but I think it is necessary—that in July, 1912, the matter was first mentioned by me in private conversation to the Governor of the Bank of England, before the public had any knowledge of it. He expressed his approval—perhaps expressing approval of the action taken might be too strong an expression, but he certainly expressed no disapproval—and he recognised the special circumstances of the case, and no reference was made to any breach of confidential relations at the time. I noted the words of that conversation and I reported them to the India Office orally at once, and in writing subsequently: "Before the facts of our purchases became publicly "known, I informed the Governor of the Bank of "England privately of what had taken place, and "after having carefully gone into all the circum-"stances, his only observation was that we could hardly "have done anything else, and that he would have "acted in precisely the same manner if he had been "in our place, or words to that effect." I went on purpose to the Bank of England before this matter became public knowledge, and I acquainted him with the whole facts, but naturally he would not attach the same importance to that interview that I did. I noted the words at the time, and probably they would not be present to his recollection now as they are to mine. But that was his first impression, and there was no reference to any breach of confidential relations at all. He thought it was a very natural thing for us to have done. I do not want to make too much of that, and, of course, we made no use of it in the subsequent correspondence that took place, because it was a private conversation and because he was not at that time himself aware of that verbal agreement which had been made. There was no note taken in the Bank of England at all, and I do not think he or any of the officials of the Bank of England were aware of it. Subsequently, I think some three or four weeks after that time, he said that Mr. Wallace, who had been Governor at the time in 1906, had communicated with him, and that he had referred to this verbal agreement which had been made with Lord Inchcape. When that was brought to the knowledge of the India Office, and was confirmed by Lord Inchcape, we at once reverted to the practice, and all future purchases of silver were made through the Bank of England, because the last thing we should have desired to do was to come away from any agreement, whether verbal or otherwise; but we had no knowledge of it at all, and our duty was to save the revenues of the Government of India. This matter was fully discussed at various stages in the presence of everyone in an official position, and it was discussed in Council; and I remember—I think it is the only occasion which I do remember—that in addition to the decision of the Council the resolution of the Council added the observation that the strictest secrecy must be observed in carrying out the transaction. We were bound by that entirely. Our duty was to save the revenues of India, and no other considerations could prevail. I believe we did save these revenues to a considerable extent.

11,078. I thought it was right to give you the opportunity to make that statement, as the matter has been referred to in Mr. Cole's evidence; but I may say that the Commission did not consider it part of their duty to go into the details of the circumstances of that transaction—we are only concerned with the matter as it may affect the future policy of the Government of India?—As I said, I referred to it very reluctantly, and only in consequence of these remarks which had been made by Mr. Cole. As he said that mistakes

* Cd. 7019, page 165.

had been made that ought not to have been made, I thought it only right that our version of the matter should be given. In my opinion, nothing else could have been done under the circumstances. Perhaps you will allow me to make one remark, although it is outside your province, with regard to the secrecy which had to be observed in these transactions. A remark was made in the House of Commons when the matter was discussed, and it has not been denied at any time because I have had no opportunity of denying it, that while this matter was kept secret from the Bank of England it was made known to officials in the bank with which I am connected, because certain payments passed through our bank. There was no one in our bank except myself who had any knowledge whatever of these transactions until they became publicly known. No one could possibly draw any inference from the amounts that were paid into certain accounts, and no one had the least suspicion and there was no revelation made. Naturally I should not have thought it necessary to mention it, but that the charge has been made in the House of Commons.

11,079. I want to ask one more question, and then I shall have satisfied my curiosity. You have several times in the course of your answers said that on the particular subjects on which I happened to be questioning you at the moment, more Indian experience was needed for an answer than you possess. Do you think that on the Finance Committee for the work which it has to do Indian experience is sufficiently represented? Perhaps I might ask in the first instance how is Indian experience represented on the Finance Committee at the present time?—Until 1911 we had a member of the Finance Committee who was very intimately connected with India—we had Lord Inchcape. At the present moment we have Indians of considerable official experience, but perhaps not especially of financial experience. At the same time we know, I think, when our own knowledge is not sufficient to judge of the questions, and we have no difficulty in procuring the information. We always, before we decide on questions, when we think information is necessary, try to obtain it. I do not think we have ever had any difficulty in getting the necessary evidence and the necessary experience to judge of a question.

11,080. At the present time you have not available on the Committee itself any Anglo-Indian of financial experience and trade experience, have you?—No.

11,081. Either as civil servant or as merchant?—No, not at the present moment.

11,082. As we are asked to report upon the financial organisation of the India Office, perhaps you might be able to help us from your experience on another point. Do you think it would be an advantage in these matters to you as Chairman of the Finance Committee if you had an Indian Civil Servant trained in Indian finance as a member of that Committee?—It would be of considerable assistance to us, but at the same time I should think that the Secretary of State has a very complete power of appointing members of council, and I think it would be his desire always to appoint men of the best experience that are available. He also appoints the Committees, and naturally he would appoint men with large experience on the Finance Committee. If I may express an opinion, I think it would be undesirable to tie him down to appoint on the Council men who had held a certain position in India. I think it would be made too much of an established rule in time, as persons who had held certain positions might look upon it as a certainty that they would be appointed members of the Council, and I can conceive of circumstances in which that would be undesirable. I think the hands of the Secretary of State should not be tied.

11,083. I quite understand the desirability of allowing a wide discretion to the Secretary of State, and not tying his hands too closely?—There is another reason, perhaps, why I think a regular rule should not be established. Men come over with a certain experience, and they are not aware of the changes that take place and take place very rapidly. The man with a supposed experience, and the authority that is derived from such experience, who does not keep it up to date, is almost a greater danger than a help.

11,084. On the other hand, possibly, misapprehension between the Government of India and the Secretary of State and the Government at home, or the lack of information as to the reasons which have actuated the Secretary of State, might sometimes be remedied if Indian financial experience were more frequently represented in the Council?—I hardly think so. I do not think that would result.

11,085. Perhaps you do not think either that the suspicion which certainly has found expression in some quarters, that over here the interests of India are less considered than the interests of London, would be prevented, or at any rate modified, if India felt that she was more directly represented in the Committee where these matters are considered?—That is a matter of sentiment rather than a matter of practical advantage. I am quite sure that any Secretary of State would recognise the sentiment in the appointments which he was making.

11,086. (*Lord Faber.*) Alluding to the India Office in London, I think you said it was your opinion that finance had so much to do with the affairs of the India Office in London that you would if you could get an assistant secretary who was very well versed in finance?—Yes, an assistant Under-Secretary of State.

11,087. I put this rather difficult question to you: How would you get such a man? Would you take him from the business world? Could you go into the great business world and get a thoroughly up to date business man?—My answer is that you have got him now.

11,088. I mean as a usual procedure?—I do not say a business man; I do not think that is the word I have used. I think you should have a man of financial training in a Government office, and I think you can get him in a Government office. Certainly, I would guard myself in this way—I would not take in a man who had a commercial training—a banking training especially.

11,089. Could you get a financially trained man unless he were a business man as well?—I think our officials in Government offices are men of the highest financial training and experience, and that is the quarter where I would look for them. I would not go outside into the business world.

11,090. Now with regard to the procedure of the India Office in lending uncovered balances to the banks. You have explained quite clearly what that procedure is, and that the banks when they have this money generally take bills with it which mature in the next three months. Could not the Indian Government through its own banks take bills for itself instead of lending its money uncovered to the ordinary banker, if I may call it so, and the ordinary banker dealing with the money? Why should not the Indian Government take the bills itself through the Bank of England?—I am glad you have asked that question as I have strong views about it. I do not think it would be the business of any Government to go into commercial banking. I think the difficulty of discriminating, of choosing your bills, would be too great a burden to throw on any Government Department. You know from your own experience how difficult it is to discriminate between bills and how rapid the changes are. It would be too great a burden on the Government.

11,091. I should have thought it was the business of such a concern as the Bank of England to be thoroughly up-to-date in the bill world?—Do you mean to suggest that the Bank of England would buy the bills?

11,092. Yes, for the Government?—And endorse them and be responsible?

11,093. Yes; but they would be bank bills to start with, and they would have the names of two banks on?—I doubt whether the Bank of England would carry out the duty. If they were entirely responsible for the bill and made themselves responsible, that might be one way of disposing of your balances; but, at the same time, it would be a very cumbrous and difficult way of investing your money in bills, which do not all

mature in one day; we should have to watch the maturities, we should have to keep the bills at the Bank of England, for I suppose they would do the collection for us, and the money would come in day by day in irregular amounts when we might have no use for it, whereas now we fix the advances for definite periods to suit our convenience.

11,094. The Bank of England is there for that purpose, and it gets well paid for the account. I should have thought that was one of the first things it ought to have done for the Indian Government. It is the best security in the world?—They would certainly not do it without additional remuneration, and it would be very considerable remuneration. I think it would be an expensive matter. However, the question of deposits with the banks was merely a temporary measure, and is hardly likely to arise in the immediate future at all events. At the same time I think it would be rather a pity to shut the door to transactions which other Governments have found answer their purpose very well. We had, during the last spring, times when we could not very well dispose of our balances, and it is as well to have another channel instead of lending it all in one direction, as that checks the rate.

11,095. This is a question that I do not suppose you could answer at all, but if you feel inclined to answer I should be glad. Does the India Office get reasonably good terms and facilities from its present bankers?—I think the charge that the Bank of England makes is set out in the evidence before you. I think you have had a table showing the various payments that have been made. In the opinion of the Bank of England the account does not pay them at all:

11,096. I asked you for your opinion?—I do not think the whole profit of the Bank of England is revealed in these figures, because lately we have gone into the question of another issue altogether. The Bank of England are printers for the currency notes, and they make a very large additional profit out of that.

11,097. What I want to get your opinion on is this: Does the India Office get, as I say, reasonably good terms and facilities from its present bankers?—It must be remembered that the Bank of England has a very expensive staff and does its work in a more expensive way than perhaps private institutions do; also that it is put to greater charges, On the other hand, it must be remembered that we derive a very considerable benefit from the account, and that there is a great deal of work connected with it, particularly with the handling of the securities for our loans for which there is no payment made at all, but which is part of the account. I should say that they are very well paid indeed. We have again and again tried, sometimes successfully, sometimes unsuccessfully, to get our charges reduced, but we are in the position of being compelled to use them as our bankers, whatever the terms may be. Whenever we go for a reduction of their charges we have to go and ask for a favour, to go on bended knees as it were—Be good enough to reduce the charge—because we have no alternative open. We are bound by Act of Parliament to keep our banking account with the Bank of England, and no one would wish to alter that, so they have a monopoly. At the same time efforts are constantly being made to get the charges reduced. Of course they are very high charges.

11,098. Now with regard to the balances at home and in India; is it your opinion that it ought to be the Secretary of State's first care to lend out what he safely can lend in India and after that to lend the balances in London?—I think the evidence has shown that it is desirable to have the balances in London,

11,099. All of them, would you say?—As far as consorts with the convenience of the Government of India. If they show a reason why the balances had better be placed in India, such as loaning out the money at a time of difficulty——

11,100. I mean that?—Then, of course, it had better be used there.

11,101. Would you say first there and then afterwards here?—The first care of the Secretary of State and of all his advisers are the interests in India, and they always have been so considered whatever policy has been decided upon.

11,102. Now as to the State Bank, you made a very interesting statement, with which I may say I agree, but all people do not agree with your opinion that sometimes a State bank's duty to its stockholders and its duty to the State are in conflict?—It is so sometimes.

11,103. Why have stockholders if you are starting a new bank? Why should not the Government find the money and get the profit for the State? If you had a *tabula rasa* and were starting afresh in a fresh country, would you have stockholders or would you not?—What would the advantage be of a State bank then? You would only have another great organisation added to your present organisation, and the responsibility of Government would be much greater in looking after that.

11,104. The State bank in that case would be working only for the State, because the stockholders would be the State. I am only against the diverse elements telling one against the other. If you start a bank in which all the money belongs to the State, then the bank is working always for the State and never for the private shareholder?—I cannot think of any instance where that is the case.

11,105. Of late years, at any rate, before this question of a State bank arose, other strong banks have arisen, and it has been found better or more politic to take in those banks and amalgamate them under a State bank; I am trying to get your opinion on the merits of the case?—I cannot quite see the advantages that you would expect to get from such a State bank.

11,106. I think you rather misunderstand my question. I do not say there would be advantages from a State bank, and I am not on that point; I am on this point—that if you have a State bank, if you are obliged to have one, would you have it with stockholders or would you have it without?—I must consider the advantages of such a device before I can answer your question. I do not quite see who is to benefit by a State bank without stockholders.

11,107. The State?—That would be if they had a large business; and then you at once push the State into doing commercial business, which it is not the province of the State to undertake.

11,108. If I may, for the sake of argument, take one case, the Bank of England, which is not a State bank quite, but gets near to it, is there ever a conflict between the duty to the shareholders and to the money market generally in the case of the Bank of England?—I would say yes to that, but an unqualified yes may perhaps carry my meaning a little further than I intend. There are times when there must be a conflict between its duty from a mere point of profit and its duty of keeping proper and sufficient balances for, I will not say the money market, but the country at large. There must be; and it is very well and evenly balanced in the Bank of England, but the conflict is there. As to a State bank in India, I think if you had such a large institution, such an organisation, the expense of it would be so great that the advantage to the State, the profit to the State, would be rather less than the profit which it would lose on the present issue of notes. On the other hand, great expectations would be raised as to the duties of that bank. If you had a State bank started now, it would be expected to assist commerce and it would be expected to assist agriculture in an official way, and I think that would be very dangerous.

11,109. If you are going to call in the shareholder in the shape of other banks in India, you would be landed at once with a shareholder who was receiving 14 per cent., and who would expect the same dividend, naturally, as he is getting now. From my own point of view I cannot see why if you have a State bank you should not have the whole thing for the benefit of the Government. Did I understand you to say that as regards the Gold Standard Reserve you would keep

one-third in gold and the rest in securities?—At the present time, my own individual opinion is that you ought to get more than a third. I would like to work up to, say, 10 millions. Subsequently, I think, supposing that the total was 40 millions or 50 millions instead of the 25 millions at which we are at present aiming, then I think a third would be sufficient.

11,110. (*Mr. Keynes.*) In considering what part of the note issue would be invested you quoted some comparative figures from other countries. In the case of France and Germany, for example, I suppose you are aware that the cash includes the whole of the banking reserves of those countries as well as the security against the notes?—Yes.

11,111. So that the note issue against which this cash is held corresponds to the active note issue in India, that is to say, excluding what the banks hold and what the Government holds?—Yes.

11,112. In the last few minutes I have worked out from the last report what the proportion of cash last year in India was to the active circulation, and I find it was 113 per cent. If your proposal were to be acted on, and the proportion that you suggested was to be to the gross circulation, it would not compare at all with the figures that you put before us?—How do you arrive at the active circulation?

11,113. The active circulation is the total circulation less that part which is in the Government treasuries or in the Presidency banks?—Then I would say my proportion was aimed at the active circulation.

11,114. Then your proposal is an enormously big one?—Would you mind giving me the exact figures of the gross and actual circulation?

11,115. In 1912–13 the average gross circulation was 65 crores and the average active circulation was about 45 crores, and the average cash held was between 51 and 52 crores as against an active circulation of 45 crores, that is, 113 per cent?—I think then I ought to correct the answer I have just given. It is the gross circulation I think that you ought to have a proportion of.

11,116. If you are speaking of gross circulation then these figures for England, France and Germany have no relevance to the question, have they?—They have some relevance, so far as they show what is taking place in ordinary circumstances without any special influence affecting the money markets.

11,117. They show how much cash is held against the note issue, for the requirements of Government, and as banking reserve; but in India separate sums are held by the Government and by the banks, so that the proportion as held against the notes alone ought not to be the same proportion that is held by these Governments for all three purposes together, ought it?—No, because you have a different system altogether. I think, as I said, in a country where your banking system is not so highly developed you must have a different proportion for your fiduciary issue, and I think a smaller fiduciary issue than is justified in a country where your banking system is very highly developed.

11,118. No doubt; I was only questioning the relevance of these particular figures as a guide to what was the sort of proportion other countries had found reasonable?—They are not a strict analogy, and I admit that fully. They are only given as instances.

11,119. There is this very important difference, that the cash in other countries includes bankers' reserves, and in India it does not?—Are the bankers' reserves that are held in India very large? I do not know.

11,120. They are considerable; the average holding of bank notes by the Presidency banks would be 7 or 8 crores?—Are the reserves held in notes?

11,121. Not the whole of the reserve, only part of the reserve is held in notes. I see, on referring to the tables, that in 1912–13 the average for the year held in notes by the Presidency banks was 7 crores, and at one time of the year it was more than 10 crores?—I do not wish to put forward these figures as of very great cogency. I only wish to show what is the proportion which I think one could reasonably aim at. As I said, I think the problem must be studied according to local conditions entirely, and I do not think any analogy really can help you very much. But I do think that for the purpose of arriving at the right proportion of the fiduciary issue, the gross circulation must be the basis; notes held in the reserves of the Treasury or the banks may become part of the active circulation at any moment, in the same way as notes held in the banking department of the Bank of England.

11,122. A witness whom we are to examine later to-day has put in a memorandum* in which he suggests that the Government of India might consider buying their silver in Bombay instead of in London. The reason he gave for that is that in London the market is a very narrow one, being in the hands of four brokers, and in Bombay it is a wider one; also that Bombay is in close relation to the two places where there are great stocks of silver, namely, Shanghai and London. What have you to say to that suggestion?—I think you have greater experience on this Commission than I can command. The great difficulty in these matters is secrecy, and whether, if the Government begins to buy in Bombay, that fact could be kept secret I am not prepared to say.

11,123. At present it is only under exceptional circumstances that the purchases are kept secret in London, is it not?—I think it has only been during one period that they have been kept secret.

11,124. So there is not much to choose on that score in general?—But it has been demonstrated that they could be kept secret.

11,125. I put it to you that there are certain attractions in the proposal for buying in Bombay. One of the things which is open to criticism is that the Government is bringing money across in anticipation of silver purchases, and if they bought their silver in Bombay it would not be necessary for them to do that, as it would be done in the ordinary course of business?—I am only speaking from memory now, but I think there is no abstract objection to these purchases being carried on in India, and I think from time to time the Government have received tenders in India and have accepted them. That is my impression.

11,126. That has not been done recently, has it?—Not recently, but I believe it has been done, and there is no objection to it.

11,127. It has been regarded recently as wholly a matter for the India Office, has it not; I mean the officials of the Government of India have not even considered on what terms they could get silver in Bombay?—I do not think that is so entirely. I think there is correspondence between the Government of India and the India Office as to the best manner of conducting the purchases. I think it has been certainly considered from time to time whether it would not be better to invite tenders, and I have no doubt that it will be considered again. I do not admit that the London market is a narrow one—it is the largest in the world.

11,128. (*Sir Shapurji Broacha.*) The maintenance of exchange at 1*s.* 4*d.*, I suppose, is a condition precedent to the proper management of the gold reserves?—Absolutely—I mean round about 1*s.* 4*d.*, and within the two gold points.

11,129. Suppose the Government were to announce that they were responsible for maintaining exchange at 1*s.* 4*d.*, do you not think it would allay fears as to the way in which they manage the gold in their reserves and other gold?—Do you mean by that that they should undertake to sell gold in India against rupees?

11,130. No, I mean that they should not allow the exchange to go below the par of 1*s.* 4*d.*?—That is the policy of the Government altogether, and they have done the best they could to secure that.

11,131. They have refused to do it, and witnesses that we have heard have said it is not right for the Government to do it?—Surely, during the crisis, the one object of the Government was to maintain the exchange, and they have done it.

* *See* Appendix XXXIII., page 686

11,132. I think you can see from the correspondence how hesitating they were; after a good deal of haggling I must say that they ultimately did the right thing, but they did not commence with the right?—I think I must demur to that statement, certainly as far as the action of the India Office is concerned. At the commencement of an unexpected crisis which had never arisen before perhaps there is a kind of hesitation which when it occurs the second time, will not take place. But beyond a certain amount of immediate indecision at the time on the part on the part of the officials, I think, when the Government took the matter into consideration, that exchange crisis was stopped and proper measures were taken.

11,133. I have nothing to say about their considered action afterwards, but they were not very sure of their ground at the beginning, and Lord Morley wired to India not to give gold?—That involves another question; what do you mean, giving gold or keeping up exchange?

11,134. What I mean to say is that in fact they gave no direction at all at the beginning. They talked of 10 lakhs and 25 lakhs and all this and that, until they came to their right senses, and by the advice of the India Council they maintained exchange at 1*s.* 4*d.*; but if they had taken the same course some 15 or 20 days earlier, the exchange might not have gone down as it did?—At the same time, ultimately the proper action was taken.

11,135. Ultimately I agree it was?—My point is that this was the first time a crisis of that kind had arisen, and perhaps the machinery was imperfect for dealing with it immediately. I think, now that experience has been gained, that experience will be taken advantage of in future.

11,136. You are in favour of giving whatever gold is asked for in India to the people as they come with their rupees for it?—I would give whatever gold is asked for up to the last penny. At the same time, I should not be prepared to announce to the public at large that at all times we would give gold in exchange for rupees. I should say We will give it up to the extent of our resources. On the other hand, we are always prepared to keep exchange at 1*s.* 4*d.*, but that is a different question.

11,137. You say, speaking of loans from the Treasury balances, "Advances might be made to the Presidency "banks against security when the bank rate is high— "6 per cent. or 7 per cent.—at 1 per cent. below that "rate, provided that the balances are sufficiently high "to admit of their being made without interfering "with the general policy of the Government as regards "exchange and reduction or avoidance of debt." That is giving them a rather large pretence for refusing, is it not?—I think the general policy must not be interfered with. You assist trade when you can, but you do not make it your primary business to assist trade.

11,138. You always think that balances lent in this country to the extent of 20 millions are absolutely safe, but are you certain of that?—I am perfectly confident, humanly speaking, that the balances are safe.

11,139. If 2 or 3 millions were lent in India, would not the Government have perfect confidence in their being returned when wanted?—I have not the slightest doubt about that either. At the same time there is this difference: A calling-in of balances here in this market in a time of stringency, would take place without any personal consideration at all, for the individual from whom the money is called, or for the condition of the market. The condition that prevails here is purely one between the borrower and the lender, and the lender would in time of crisis be in a position to ask for his pound of flesh. But turning to India, when the money has been lent out there, for the distinct purpose of assisting trade or avoiding a difficulty in trade, then the Government in critical times would be placed in a very difficult position, because by insisting on repayment at the period when it is due, they might aggravate a crisis at the time, and therefore they might hesitate. For that reason, I think your money is not so immediately available when it is lent out in India as when it is lent out here.

11,140. I think you are mistaken, and that without disturbing the market, when money is borrowed by the Presidency Banks on the security of Government paper we can rest assured that it will come back on the very day it is wanted. But it is not certain that one of your seven banks, taking these deposits without security, would not fail; it is possible that one of those banks might fail, and then you would be left without security. If a Presidency Bank fails, still there is the Government paper. Therefore, I say you have absolute security if you lend 3 millions in India, and the lending of the money should not be hampered by conditions about exchange and the reduction or avoidance of debt?—As far as I know no security is now given by the Presidency Banks for the large Government balances. The question to which I am referring is the question of temporary advances from the Treasury balances. All I say is that if the Treasury balances are sufficiently high they might be lent, if they can be lent without interfering with the general policy of Government as to its future expenditure, and as to its general manner of disposing of its funds. They might be lent for temporary purposes instead of being locked up in the Treasury. You raise the whole question of the balances being held in London and not in India; I think that has been dealt with very thoroughly in the official evidence, and I think very good reasons have been shown why it is preferable to hold them here.

11,141. Suppose the reduction of debt were to wait for the three months, what great harm would be done to the Government? You remember that the Secretary of State was very nervous about sending money out from England in 1906, and offered to the Government of India many alternatives. Suppose a reduction of debt were to wait for three months, and the money were to be used by the people from whose pocket the money has come, where is the harm?—I do not say that three months would make much difference.

11,142. The combined balances of the Secretary of State and the Government of India have for many years never fallen under 12 or 15 millions, and I think any Government could go on for three months with that?—Yes, but I think I have shown there is a reason why the balances should be larger. I do not think 10 millions or 12 millions as a combined balance is enough.

11,143. It would avoid invidious criticism against the Secretary of State. To turn to another point, you say that the Bank of England notes do not run in Scotland?—That is so.

11,144. So, of course, the Bank of England is confined to a very small space, namely, England and Wales?—That is so.

11,145. Do I understand that the Bank of Ireland also has notes of its own?—Yes.

11,146. When your kindred people like the Irish and the Scotch will not allow the Bank of England notes to run in their little territories, I suppose you can have some consideration for the vast and divers populations of India?—I have ventured to express the opinion that we should have that consideration. At the same time, when you say the Bank of England does not run in Scotland, I think you would have no difficulty in getting rid of a Bank of England note there and getting value for it.

11,147. But a Bank of England note is not legal there?—No, it is not.

11,148. There is no great harm in taking Bank of England notes even though it is not legal tender, so it must be a question of prejudice with some people, and they do not like the Bank of England to be supreme over Scotland; it must be some such sentimental reason and nothing else?—It is a system which is the result of gradual evolution. I do not think, judging from the Scottish character generally, that they would

like to change. They have a highly efficient banking system which works very well.

11,149. I suppose that the initiative of the purchase of silver comes from India, does it not, or does it come from the Government here, or do both watch?—It is the business of the Government of India, certainly, to watch their currency reserves and to suggest purchases when the time has arrived.

11,150. We have a witness coming who says* Bombay is a larger market than London in silver, and that the silver should be purchased in Bombay. Lord Inchcape told us yesterday that it should be purchased always in London. Suppose the initiative comes from India, why should not India take advantage of the best market at the time, whether Bombay or London? It would be less known if known to the Government of India alone, and they bought in India, and less published, I should say?—I think I have given my answer to that question already. In answer to Mr. Keynes I said there is no objection in theory, nor has there ever been an objection raised by the India Office as far as I am aware, to silver purchases being carried on in India.

11,151. I know that in 1904–5 I got a large amount of silver in Bombay on an order from the Comptroller-General, but the Home Government stopped any such action in future. Therefore India has been deprived of any benefit of the silver market that she has?—I was not at the India Office in 1905. I only know from the conversations we have had frequently on these questions that the possibility of buying in India has never been excluded.

11,152. I know for a fact that 2 or 3 millions could have been bought last year in India at 2*d.* lower than it was bought in London; in fact, I think I know that 2 millions were offered by a native banker?—I have seen that statement made, and the point has also been raised in Parliament; in fact, I believe a question was asked about it. No such offer was ever brought to the knowledge of the India Office, and we have had no information about it at all. When the question was asked in Parliament inquiries were made in India, and the answer of the Government was that they could not trace such an offer.

11,153. Do you know it was sold as silver to the Government here?—When?

11,154. Just now. The Government bought 4½ millions, or something like that; of that quantity 3 millions belonged to an Indian owner, and I gave a million. Therefore I think Indians are unjustifiably debarred from being allowed to take advantage of their silver market. I think it is probably the largest silver market in the world. At any rate, it is certainly the Bombay price that makes the exchange in the East?—I have already answered that there is no objection in the India Office to these purchases being carried out in India. What we shall try to do as long as we control the purchases of India is to buy in the cheapest possible market and with the greatest advantage to Indian revenues. That will be our business.

11,155. (*Sir James Begbie.*) There is one point I am not quite sure that I caught your meaning about, and that is with reference to the reserve against savings bank balances. Talking about the balances held in London, I understood that you would regard them as reserves against the Savings Bank balances in India; was that your meaning?—No; I was referring to the general balances, the total balances, both in India and in London, the question of holding balances at all, and the criticism which has been raised that the balances altogether have been too large, whether in India or in London. I said that one of the points which has to be remembered is that there is no special balance or reserve held against Savings Bank deposits, and that is a liability of the Government which they might have to meet, and which ought to be considered.

11,156. (*Mr. Gillan.*) The position as it is generally understood is, is it not, that the management of the balances of the Government in India rests with the Government of India?—Yes, that is so.

11,157. I think you said in answer to the Chairman that as regards loans from those balances the Secretary of State would be ready to carry out the ideas of the Government of India?—Certainly.

11,158. I want to make that position absolutely clear if I can, and to do so I will refer first to some correspondence that took place on the subject in 1899.* You will remember that in that year the Government of India made a definite proposal to the Secretary of State that it should be "recognised as part of the "ordinary business of management of the Treasury "balances to lend money to the Treasury banks at "1 per cent. less than the declared minimum rate of "discount of the borrowing bank." The answer of the Secretary of State to that proposal was that, as the Government of India had pointed out, it might interfere with his Council Bill operations. He regretted, therefore, for that and other reasons, that he could not accede to the proposal. He said: "It is im-"possible to prescribe any specific amount which must "be retained in the Reserve Treasury or be otherwise "at the command of the Comptroller-General on "short notice, in order to meet not merely the dis-"bursements of your Government in India but also "the probable amount of remittances to England; and "it is essential that an adequate provision should be "made for these purposes. Subject to this being "maintained, I see no objection to your lending "money to the Presidency Banks on the security of "Government paper, at such rate of interest from "time to time, and for such periods, as you think "best. I am inclined to think that the rate should, "as a rule, be not below Bank rate." That is to say, on that occasion he negatived the proposal of the Government of India, and he gave them a certain direction as to the rate of interest that he thought they should charge. The position, as I think it has been put before us, is something like this: The management of the balances in India is said to rest with the Government of India, but when it comes to a matter of the lending out of those balances they find themselves up against the policy of Council Bills, and the Government of India on their part have understood that the direction of the policy of Council Bills rests with the Secretary of State. Would you accept that statement?—I am not very familiar with the correspondence that took place in 1899, or with the policy that prevailed at that time. I would rather rely on the official evidence which has been given by the official witnesses than on any views which I can express. I think temporary advances might be made against security when the bank rate is high, provided the balances are sufficiently high to admit of these advances being made without interfering with the general policy of the Government as regards exchange and other matters. I do not think you make a very strong point of the 1 per cent. below bank rate, or do you attach much importance to that?

11,159. I will come to that later, if I may. The point I wish to make at present is that there seems to have been a certain amount of division of responsibility, I will say, in the matter of the direction of this policy of loans in India and of Councils. The one is supposed to be done in India and the other at home. Has the Secretary of State in the past actually consulted the Government of India as to the amount and time of his Council Bills?—I should not like to speak positively as to official enquiries being made in official correspondence. I can only speak from recollection, but I do know that it has been the invariable practice to enquire from the Government of India what balances are available, and what balances they think they have got to keep in India, and how much will be available over here. That is the policy.

11,160. It is assumed, that whatever is available in India may be drawn away from there, is it?—Unless the Government tells us that they prefer to keep so much for loans out there.

11,161. Let us go to the recent occasion on which this matter of loans came up. The other day the Government of India again put forward certain pro-

* *See* Appendix XXXIII. page 686.

* *See* Cd. 7070 pp. 49–64.

posals* for lending out their balances in India?—That is so.

11,162. The Secretary of State then suggested* that, instead of giving loans at 1½ to 2 per cent. below bank rate, they should be given at 1 per cent. below bank rate?—Yes.

11,163. The point I want to get at is, not what is the proper rate to fix, but that the rate fixed would in any case affect the extent to which the offer of the Government to lend money was taken advantage of in India, according as the rates were more or less favourable; is that not so?—Would it? The bank rate is, say, 7 per cent. That means, if I understand the position rightly, but I am not quite familiar with the position, that the Presidency banks charge 7 per cent. for their loans, and if they could get the money at 6 per cent., or if they could get it at 5½ per cent., the difference represents only an additional profit to them, but not an additional amount available to the community.

11,164. To that extent they might be more inclined to take advantage of the offer; that is what I meant by saying if they were given more favourable terms?—They might, but the public would not benefit.

11,165. The Presidency banks would?—The Presidency banks would benefit, but not the public. As the policy is one which is intended to benefit the public at large, I think it is equally carried out with the 1 per cent. margin as with the 1½ per cent.

11,166. (*Mr. Keynes.*) If the Presidency banks took more, then the public would get more?—They would not get more, but the Presidency Banks would get it at the higher rate.

11,167. If the public got more at the lower rate, that would be more satisfactory to them?—The question is, why should the Presidency banks get this large profit at the expense of the Government?

11,168. Mr. Gillan put it that if you offer the Presidency banks better terms, they will take more money, and if they take more money, more money will reach the public?—I am not quite sure that I agree with that, because I think some of the correspondence shows that at one time the Presidency banks were quite willing to take it at the bank rate, because they were not going to work for profit, but simply to have the money available for lending. Now, if they can get it at 6 per cent., surely they will take as much as they can lend at 7 per cent.

11,169. (*Mr. Gillan.*) I am not suggesting at present that the proposal of the Government of India was right, or that the decision of the Secretary of State was right, but merely that the amount taken in India would probably depend on the terms offered?—I cannot quite agree with that.

11,170. Would you agree in any case that there is, so to speak, a sort of competition between the demands for Government money in India and the demands for it, or the uses to which it can be put, in London; that is to say, do the loans in India to a certain extent compete with loans in London?—I do not think that is a consideration which has ever been taken into account here.

11,171. But there is that competition, is there not, and the more money you lend in India the less you have to lend at home?—That is so, unless it was followed up by an addition to the currency.

11,172. I do not quite see how that follows. This is a matter of the balances of the Government; if they have got so much and they have lent out more in India, then they have less to lend out at home?—Yes. At that time, if the Treasury balances were not sufficient to meet Council drafts, then silver would have to be shipped and coined.

11,173. I think that gets on rather a different point?—Yes, it does. Speaking broadly, I agree with you that the more there is lent in India the less there is for home, but it will be only temporary, because it is only to be lent for temporary purposes.

11,174. That being so, I must put this to you quite plainly: Is the position of those members of the Secretary of State's Council not rather invidious who have to decide on the distribution of the Secretary of State's balances as between India and London?—No, I cannot accept that view at all.

11,175. You cannot understand that there should be in India a feeling that they would like to have some direct representation of Indian interests on the Council, since questions of this sort involving a divergence of interests do come up?—I can quite understand that there may be such a sentiment in India, but that was not your first question nor do I admit that there is a divergence of interests. I think your first question was: Did it place the finance members of the Council in an invidious position? I really think that it does not, because they only do try to look, and they do look, at those matters from the Indian point of view, and not from the London point of view.

11,176. That I quite understand?—There is no difficulty when you are acting in this capacity here, I think, in looking at matters from that particular point of view.

11,177. What would be your position with regard to this sentiment that I have mentioned? I think we were told yesterday by Lord Inchcape that he thought any sentiment of that kind might be quite safely disregarded, and you mentioned it this morning in answer to the Chairman as a matter of sentiment which is rather apt to prejudice any proposal in the financial world?—Personally I think you ought to meet sentiment whenever it is consistent with the general policy. If that is the general feeling, I see no reason why some consideration should not be shown to that sentiment, provided you can get the same services from the person who is looked upon as representing Indian interests; but I should be very sorry to see an element of conflict introduced into the Council or the Finance Committee, and to say that one particular member is there to represent Indian interests, and another member is there to represent London interests. I think that would be very undesirable indeed. We are all there for the one purpose, and that is for Indian interests alone, and for nothing else.

11,178. I quite see your point, but at the same time is it not important to make sure that there is a representation of Indian interests, and that there is someone whom the Indian public would recognise as being there to support their case or the case of the Government of India?—I think it is a great pity that it should be considered necessary to prove that to the Indian public. I should have thought that, after all, the interests of India can be shown to have been sufficiently safeguarded in every possible way. Looking at the last 10 years, India has been very prosperous, her trade has progressed; she has developed wonderfully; railways have been built and debt reduced, and I do not think, in the face of that, it could be said that her interests have not been sufficiently safeguarded in the management of her financial affairs.

(*Mr. Gillan.*) I am not suggesting for a moment that they have not been safeguarded. As Mr. Keynes put the point to Lord Inchcape yesterday, that should be shown visibly, so that no one can make any possible mistake, or be under any possible misconception or misapprehension about it?—It depends very much upon what importance you attach to this sentiment.

11,179. (*Lord Faber.*) I understand you to say that, everything else from the business point of view being equal, you would pay due attention to sentiment?—Certainly, and I am quite certain that the Secretary of State, in selecting his members of Council, would have regard to that sentiment, and select men of suitable experience. But I can only repeat what I have said: I am afraid it would be a retrograde step to appoint one particular member on the Council of India to represent Indian interests.

11,180. (*Mr. Gillan.*) I will put it to you this way: Lord Inchcape's position, I think, was this, as he put it to us yesterday; he said: "Make sure, in point of "fact, that the interests of India are safeguarded, "but, having done so, you may disregard any outside "sentiment," which he looked on as uninstructed. Is that your position?—Yes, more or less, I think it is. There will always be a certain amount of outside criticism. Any Government will be criticised, and the question is whether the criticism is reasonable or not.

* *See* Appendix XXXVII., pages 701–5.

I think there is a considerable amount of well-informed criticism, and I am quite sure that it will always be regarded. The best men should be selected—men representing India in all her aspects, financial as well as others. I think the Secretary of State would desire to have men of Indian financial experience on the Council, but I do not think he ought to go very much further, and I should almost look upon it as a calamity if one member was appointed especially to look after Indian interests on the India Council, which suggests that those interests are not sufficiently considered and other interests are taken into consideration. But have Indian experience by all means.

11,181. I do not think I have quite got your mind on the subject yet. Looking to the political development of India, and the relations of India and England, do you think it would be wise to advise the Secretary of State to pay no attention to the appearances of things?—If it is only the appearances of things, then I think we can disregard them.

11,182. I will go on now to the matter of the management of Council Bills. With regard to the recent large balances, I take it your view has been that there were various reasons why large balances should be held. We have heard of the condition of the financial market, the difficulty of borrowing, the difficulty of the situation, and so on; that seems to me to be a justification for large balances, but I do not see that it is relevant to the question of holding them in London; that is to say, the Government, in view of these conditions that you have mentioned, ought to have large balances, but not necessarily at home. Is that not so?—I think I also say that while there are reasons for the desirability of keeping large balances, the fact that they grew to this extent is not due to any policy, but is due to accidental circumstances which have been explained. The only case in which I think the balances might have been decreased, as I mentioned this morning, was the case of the India Bills, which might have been paid off six months before they actually were.

11,183. (*Chairman.*) Mr. Gillan is now on rather a different point. He is not questioning for the moment, I think, the amount of the balances, but he is putting to you that you had not explained the reasons for which you thought that the balances, or so large a proportion of them, whatever they were, ought to be kept in London, rather than in India?—It is mainly a question of exchange, and of the liabilities of the Government being due in London, rather than in India. The payments have to be made here for purchases, and for all the home services, and eventually the pressure of keeping up exchange would fall on London. Also up to this time we have really had no useful methods of employing the balances in India. There is more of a profit-earning prospect if you have them in London than in India in the Treasury balances.

11,184. (*Mr. Gillan.*) That is a point I was coming to. What you have said just now refers, I think, to the ultimate object for which the balances are brought home?—Yes.

11,185. The critics of Government, when they are driven into a corner, do not, I think, deny that those objects are right. What they say is: Even granting the objects are right, the fact remains that you have brought home your balances too soon, and you had at any time during the last three or four years in London a great deal more money than you had immediate use for?—Than it turned out eventually that we had any immediate use for; but a crisis might have arisen at at any time which would have called for the use of them.

11,186. You were keeping them as a sort of emergency reserve in case something might happen then?—In case we could not borrow money at all, or in case of a sudden exchange crisis, or something of that kind. As I stated before their magnitude was to a great extent due to accidental circumstances.

11,187. You could have brought them home at short notice, could you not, if you had held them in India?—It depends how they were placed in India.

11,188. I think the point of the whole of this criticism which has been brought against the Government is that they say: Admitting the objects for which you brought them home, in the immediate disposition of your balances, do you really consider at any time what you could do with them in India? Has that been considered in the last four or five years?—I do not think it has in the official correspondence, but I believe it has. I think it is in evidence that more than a certain comparatively small amount cannot be placed in India, that that can only be placed for a certain period of the year, and that at other times it is money which would be used to a greater advantage in England than in India.

11,189. When was this last discussed?—I am afraid I cannot answer you. I do not know when it was last discussed officially; I only know the question has always been present in our minds when the matter was before us.

11,190. To pass from the question of loans in India from Treasury balances, you suggested that they should be made when the bank rate is high, 6 per cent. or 7 per cent.; is your position that which used to be taken in these discussions, that lending money in India is a resort which should be brought into play only in case of emergency, so to speak?—My position is this, and I think I tried to explain it this morning, that the lending by Government for purposes of trade is a rather hazardous proceeding, and liable to become too much of a practice, as trade may depend on that Government assistance, which may fail just at the critical time. For that reason the lending of the balances in a different quarter is safer. I will give you an instance from the Canadian banks; they employ their surplus balances, not in Canada but in the United States, because at any time, if a crisis arises in Canada, they can call it in freely from the United States and London.

11,191. Is it your argument that trade should depend on its own resources?—Yes.

11,192. Is not that an argument that applies rather more to permanent loans than to short-dated loans?—Yes, certainly.

11,193. Assuming that the Government of India has at times a balance in excess of its requirements, is the lending out of that excess subject to this objection that you have mentioned?—No, not as long as it is a temporary purpose, and acknowledged to be for a temporary purpose.

11,194. You mentioned another condition which you think should apply to those loans, and that is that they should not interfere with the general policy of Government as regards exchange or as regards reduction or avoidance of debt. I am not clear what is in your mind about the general policy of the Government there. We may agree, as I said just now, as to the objects for which remittances are made to England, but there still remains the question as to the time of the remittances, and whether you should make them immediately or in a few months or next year?—I think the time of the remittances is immaterial, but the general policy has been to accumulate balances here, and to that extent to lessen the amount of the loans that have been issued; that is to say, to reduce debt or avoid debt; otherwise the balances would hardly be necessary at all, and you could reduce taxation. The surpluses have been used and remitted over here to pay off debt or avoid debt.

11,195. This is really the point Sir Shapurji put to you. It might be a question whether you should bring home money in January or keep it in India for a few months, use it there, and bring it home, say, in May?—The only thing is that it would be more expensive to bring it home in May than in January.

11,196. I am giving you that as an instance. Should not the time of these remittances be decided after consultation between the Government at home and the Government in India?—The time of the remittances really depends on the demand for Council Bills. You cannot fix a certain time when they have to be brought home. Surely it is your Council drafts that bring the money home.

11,197. But you can decide to what extent you are going to make use of it?—We can up to a point, but we are bound to give Council drafts when the exchange goes to 1*s.* $4\frac{5}{32}$*d.*, are we not?—We are compelled to do so.

11,198. Within those limits, one has a considerable discretion?—Within those limits there is a discretion. Then, of course, we have to consider the convenience of trade in another direction, as they will clamour for these Bills.

11,199. Very much in the same connection you refer to the connection between the London and Indian money markets generally; you point out that conditions lately at home have been abnormal, and you look forward to a time when, under more normal conditions, money will flow freely into India?—Yes, that is my opinion.

11,200. Through what channel will it flow into India?—I think there are many channels; through the banks, through the private firms. If money is usable at 6 per cent. in India, and its value is only 3 per cent. in London, and the lender is sure of his exchange, then the money is sure to flow into the market which gives the higher rate. I do not know what the precise process is—whether the London banks would send to the Indian banks certain deposits, or whether private persons would send through their private correspondents or the exchange banks would attract deposits here to a much larger extent. I think it is only during the last four or five years, perhaps, when the European money markets have been in this abnormal condition, that the rate of interest has not been materially lower in Europe than in the newer countries. But that condition will surely be restored, and I think it is only then that this stability of exchange which has been established will bear fruit, and then I think it will tend to minimise the difference between the value of money in India and in European markets.

11,201. I was wondering whether you had chiefly in mind as the channel of communication, so to speak, the exchange banks?—There are the exchange banks, no doubt, but there are many other channels.

11,202. What was in my mind about that was that the exchange banks have other connections and other interests in other countries, and so on, and it may be more to their advantage to employ their money in some other country, not in India; what would be your view about that?—They employ their money in the country which offers the highest rate of interest. Suppose that a bank which has branches in India and China can use the money to better advantage in China than it can in India, it will send all its deposits to China and not to India. At the same time, I think the British public at large will wish, under those conditions, to have the money lent out in India, and that they will use channels which will place it there.

11,203. Is it your view that apart from the exchange banks the channels of communication are sufficient?—Yes, I should think so.

11,204. I think you said, in answer to the Chairman, that the Paper Currency Reserve and the Gold Standard reserve serve very distinct objects?—Yes.

11,205. You would say, perhaps, that one of the objects which the Paper Currency Reserve has to discharge is to find specie for the notes, if there happens to be a run on the Reserve?—Yes.

11,206. Leading out of that, I want to ask what your view is about the amount of currency reserves to be held in England?—I am afraid I have not really a very definite or well-reasoned view on that point as regards the precise amount.

11,207. Assuming that the security of exchange was sufficiently provided for in the Gold Standard Reserve, I think you look to the Paper Currency Reserve to support the exchange?—I do; and as you know, I am not altogether satisfied about the Gold Standard Reserve. I wish to see that larger.

11,208. I understand that. If the purposes of exchange were sufficiently provided for, in that reserve, would you say that, on the whole, it would be better to hold very little of the Paper Currency Reserve in London, and to hold most of it in India?—It is very difficult to answer that question. It is very intricate. We have to consider the effect of a crisis, what would happen in a crisis, or what would happen in the event of that gold being drawn away as it will be when the next crisis comes. The first thing will be, the public will demand the gold out of the Currency Reserve in exchange for rupees. Will that gold be hoarded and locked away, or will it come forward for the purposes of exchange? I am afraid that is a question which I am not competent to answer, and indeed it is a very difficult question to answer. Suppose it is not available for exchange, then it will be very desirable to have some gold over here, but in that case, of course, you will not be able to pay gold away in India to such an extent as you otherwise would.

11,209. Your position, then, is that you are rather doubtful as to the effect of gold given out in India?—I am.

11,210. For that reason you prefer to keep some of the Paper Currency Reserve gold in London as a support of exchange?—Yes.

11,211. You have referred to the Indian demand for gold as probably having a serious effect on the London money market, which again affects the Indian money market and Indian trade, but you come to the conclusion that the flow of gold to India need not have these injurious effects that are anticipated?—That is so.

11,212. That reads rather in this way, that supposing the effects were going to be of the kind that you anticipate, then you think that possibly some steps should be taken to interfere with this flow of gold to India?—No. I am glad you have called my attention to that. I did not draw up the memorandum from which you are quoting for publication in any sense; if it had been for publication I should have amplified that. I really drew this up as my own notes of the general lines of my argument. I should certainly otherwise have inserted a sentence here and said, this is not a consideration which should enter into the minds of the Secretary of State and his advisers at all; and I do not think it has.

11,213. (*Chairman.*) I did not ask you any question which enabled you to make the statement contained in that part of your précis, but I think it would be convenient if you were to make a general statement of your views on this point, and then Mr. Gillan could put his questions upon that?—It has been urged in several quarters that the Indian demand for gold, which has been experienced in the last few years and which is likely to continue, may have a serious effect on the London money market, and of course any disturbance of the London money market necessarily affects the Indian money market and Indian trade generally. This is a consideration which is expressed from a London point of view mainly, and I do not think the London point of view ought to be taken into consideration by the Secretary of State without qualification. I think it is the Indian point of view that he must consider in the first place, particularly as regards currency questions. He must not look upon the convenience of the London money market at all; he must base his currency policy entirely and solely upon Indian interests and upon what is considered right with regard to them. At the same time, in carrying out that policy, naturally he would consider the London money market, which affects his own interests as well as others, but only in a secondary place. He would act exactly as foreign Governments do now. London is the chief source of supply of gold for the whole of the world, and foreign Governments in considering their policy make up their minds what they are going to do when they take gold in large quantities, as Germany has shown this year. She has taken large quantities. They call for that gold and withdraw it from this market in a considerate sort of way, so as not to create monetary conditions here which will reflect unfavourably on their own monetary conditions. That is all, in my opinion, that the Secretary of State can properly do.

11,214. You yourself, I rather gather, are not greatly impressed with the danger?—I am not impressed with the danger at all. I do not think it

will have that injurious effect, and I do not think it will continue on an increasing scale, as, in prosperous years, the imports of India are likely to grow as well as the exports, and the balance of trade will be paid in commodities rather than in gold when once there is a sufficient amount of gold in circulation. I think that is what we have seen this year. There has been a large increase of imports of commodities, which has rather militated against the import of gold; and it is a natural thing that as soon as a country gets prosperous, even a country like India, it will not hoard all the gold away, but will go and buy goods with it. There have in recent years been large withdrawals of gold from here. Germany has added 20 millions to her gold reserve, I think within a year—I am not quite sure of the figures, but I think what with her war chest and the reserve in the Bank of Germany they have increased it by 20 millions; then there have been accumulations elsewhere, in Brazil, in Argentina, and other countries. There is, therefore, not the slightest reason why India should stand out in order to protect the interests of the London money market. I do not think the effect would be so great, but it leads on to the conclusion that the present system in India is an uneconomical currency system. Great quantities of gold circulate or are hoarded, and what can be reasonably done should be done to increase banking facilities.

11,215. So as to keep the gold in circulation effective for the purposes of exchange?—Yes.

11,216. And not to have it garnered up in hoards?—That is so. If money could be got out from hoards and placed with banks it would be useful to the community, it would be more economical, and it would certainly stimulate trade very much indeed. The strongest argument I have heard in favour of a State bank was the possibility of its drawing away these inoperative hoards and getting some profitable use for them. That was the one thing that would have determined me; if I had felt sure that that would be the effect of a State bank, then I should have been very much more inclined to be favourable to the proposal of a State bank. But if the deposits are to be placed with a State bank that would expose the bank to very large and sudden risks. I think the risks of a run in difficult times would be greater in the case where the deposits consist, not of ordinary trade balances but of single hoards which are merely put there as hoards and which in a moment of panic or fright will be drawn at once. Then, and this is a question on which I am not prepared to give an answer, I do not know what opportunities there are in India for the investment of the assets of such a bank. There is, as far as I know, nothing corresponding to a short loan market, where you can place money at call, or to a bill market, and I am thinking particularly of bills. The assets of a bank holding large deposits liable to sudden calls ought to be invested in very short advances and bills and short loans. I am afraid, as far as I know, that the Indian money market does not present the facilities which are unique in London, where we have this large short loan market which does not exist in any other part of the world. In India certainly there would be great difficulty, even if you had a State bank, and if this bank got the deposits, for them to use them with advantage and with safety.

11,217. (*Mr. Gillan.*) When you were speaking about these loans that were given to joint stock banks without security, there was one point that was not quite clear to me. The exchange banks are on your list of approved borrowers, are they not?—Some of them are.

11,218. Do they not give security?—Yes, they do.

11,219. I do not quite understand the reason for the distinction between them and the other banks?—There is a distinction between the clearing banks and the exchange banks. For one thing, the clearing banks confine their business to England alone, while the exchange banks have their assets out in India and other parts and they are not available here. Clearing banks have a different position altogether; they have very large uncalled capital, much larger than it is in the exchange banks, and they are on a different scale altogether.

11,220. Do you mean that there is a difference in the status of these two classes of banks, so to speak, which makes it necessary to take security in the one case and not in the other?—I think, without wishing in any way to say anything that might affect the status of the other banks, there is no doubt at all in the mind of the City of London that the status of a purely English bank, a London clearing bank, doing its business in England alone and having its assets in England and a large uncalled capital, is different altogether from that of a bank doing its business abroad with a great part of its assets in the Colonies or abroad. There is a distinction in the market, and the acceptances of such banks rank differently.

11,221. I think you said you would not be in favour of loans in London being given against commercial paper?—Yes.

11,222. Was that with reference to loans from the Treasury or from the Paper Currency Reserve, or altogether?—It was simply with reference to the security which we take against our loans to the market generally. We had a difficulty in placing those loans as has been explained. At one time the market had not sufficient security to give us, and that was the reason why deposits were made with the banks. Then it was suggested that the range of security which we take should be widened, and amongst other suggestions it was said that we might lend to these people on the security of commercial bills. My opinion is that it would be very undesirable to do so.

11,223. The reason I am putting this point is that it has a bearing on a question about which Mr. Chamberlain asked you, namely, the abolition of the silver branch of the gold standard reserve in India. One reason, as I understand, for the retention of that branch would be that it allows transfers between England and India without ear-marking gold. It was suggested to us that the purpose which the gold standard reserve serves at present might be fulfilled if, instead of ear-marking gold in London, the Secretary of State were allowed temporarily to invest part of his paper currency reserve; and I think the suggestion was that the investment might be in the shape of advances on commercial paper?—My remark had no bearing on that point at all. It was not made with reference to that suggestion, which is new to me.

11,224. But you think that suggestion is open to objection?—I do, if I understand it aright. I do not know where the advance would be made. I do not quite understand the drift of the suggestion.

11,225. I only wanted to bring out that there was a connection between the two?—That was not in my mind at all. I referred to a suggestion for the enlargement of the list of securities which we accept, and I think it would be undesirable. I would strongly object to any part of the currency or gold standard reserve being either invested in commercial bills or employed in advances on commercial bills in London.

11,226. (*Chairman.*) I want to ask one other question which arises out of something which you said in answer to Mr. Gillan on a point that has come before us once or twice in the course of our enquiry. You said that the gold standard reserve was, in your opinion, at present not sufficient, and you desired to see it greater and that that being so, it was desirable to have a part of the gold of the currency reserve in London as a support for exchange in a crisis. You said of the gold that you might give out in India, that you would give out, I understand, all the gold that you had there, and you could not say what part would come to the support of exchange and what part would be swallowed up in the internal needs or in hoards?—That is so.

11,227. That raises a very important question. What is the proper use, the best use, to make of the gold that you have in India if an exchange crisis comes upon you? If you give it out in India, you cannot be certain how much of it will be really efficient for the support of exchange and how much will go into hoards. Under those circumstances what is the best policy for the Indian Government to pursue—to give the gold out as long as it lasts to all comers in India, or should they ship it to London and sell bills against it?—My view would be to deal with the crisis boldly.

I think that always has been the best policy in dealing with any bank crisis. I would pay away the gold as long as it lasts in exchange for rupees in India, and not enquire what is to become of it. But for that reason, as has been pointed out, you must be sufficiently well armed to meet the exchange demand. My opinion is that in case of a real grave crisis (a graver crisis than we had in 1907-8, because that, although it was serious enough, is not the gravest crisis that it is possible to imagine, and I think there are circumstances which might have aggravated it) we ought to be better prepared. Then what will happen is that all your gold in the currency reserve will disappear.

11,228. All the gold in the currency reserve, if the crisis were sufficiently prolonged, would flow out?—And I do not think it would be available for protecting your exchange at all. It is for that reason that I should like to see the gold standard reserve larger than it is at present.

11,229. In spite of the fact that you think if given out in India where there is no legal obligation it would not be available for exchange, you still think that with a view to the restoration of confidence it is more important to give it out in India than to ship it home and use it exclusively for the maintenance of exchange?—That is my opinion. Of course the more gold there is in circulation at that time the less will be your run on the gold in the currency reserve. If you do not give it out freely you are pretty certain to have none available for export; if you give it out freely it may reappear again and be available.

11,230. (*Mr. Keynes.*) Would it not be the case that the more the people were familiarised with gold the more likely they would be to run after it? Fifteen years ago, when sovereigns were not familiar things in India, it was a very improbable thing in a crisis for the ordinary Indian to go after gold. If you got him into the habit of thinking gold was the right coin to have, that would increase the likelihood of his hanging on to it in a time of difficulty?—It is a very speculative question. It is very difficult to follow the mind of the native, but I should think, if he has not got the gold at all and he thinks it is a thing that is very desirable to have, he will run for it. If there is plenty of it in circulation, well, there is some to be had, and I do not think he will come for it to such an extent as he otherwise would; and, further, I think, if he gets a slight premium for it for export you will find it will come out again.

11,231. Is it your experience that when there is a slight premium a man does not hold?—I cannot say it is my experience. It is only my hypothesis. I am afraid I have no experience of such a contingency in India, and one can only judge from what one has read about panics generally, and human nature is pretty much the same everywhere, I fancy.

11,232. (*Sir Shapurji Broacha.*) Did you say that so long as the Secretary of State and the India Council think that they are going the right way and doing right they need not care for the sentiment of India?—No.

11,233. If I misunderstood you, I beg your pardon?—I do not think I went that length.

11,234. Mr. Gillan quoted Lord Inchcape to you, and then asked you whether that was your opinion also?—I think I have said repeatedly that I would certainly consider Indian sentiment, but if that sentiment should appear to run counter to the opinion of the Secretary of State then he must do the right thing independently.

11,235. You would not go against the sentiments of the people?—No, but then you must consider that sentiments are very varying things. You might have a strong sentiment for two months and then a change of feeling.

11,236. If you said that it might be very much commented on in India that the India Office does not care for the sentiment of the whole people of India so long as the people in the India Office think that they themselves are right?—That is certainly not my opinion, and I do not think it is the opinion that I have expressed.

11,237. You know we are governed by sentiment and not by financial considerations?—I wish to pay due deference to Indian sentiment wherever we can.

11,238. (*Chairman.*) Is there anything that you desire to add to make your position clear that we have not drawn out?—The bank with which I am connected has a subscribed capital of 22,934,000*l.*, of which 3,554,000*l.* is paid up. This has been until quite recently the largest subscribed capital of any bank in the United Kingdom, and I believe in the world, and in proportion to liabilities is still the largest. The bank does about 18 per cent. to 20 per cent. of the whole of the clearing business of London. Long before I joined the India Council the institution had been bankers to 11 leading Indian railways, most of them being guaranteed by the Secretary of State. It was, therefore, not a surprise to me, considering all these circumstances, that it was one of the banks selected by Lord Inchcape as one of those with whom deposits were made. The fact that two members of Council were connected with banks on the list was specially submitted to the Secretary of State in Council and approved. From the statement on page 552 of the Appendices to the Interim Report (Cd. 7071), which, I believe, is based on a statement made in the House of Commons on the 6th November 1912, it is clear that the maximum amount of deposits with the Union of London and Smith's Bank in 1912 was lower than that of any other of the banks. It has been suggested that it would have been possible to let all the clearing banks know that the Secretary of State was prepared to make such deposits and to let them apply for the same. Such a course would, I think, have been quite impracticable. It would have been equivalent to inviting tenders, and this course would have disclosed to the public all the transactions, and would, in my opinion, have lowered the rate of interest. As to the precedent for Government deposits being made with banks without security, I believe that it is the practice to do so with several of our colonial governments, and I know it is with several foreign governments, who often have very large amounts on deposit with leading London banks; the Government of India itself has large balances without security with the Presidency banks. With regard to the evidence which has already been taken, I should like to say, on the point raised in question No. 1870* as to lending on Indian railway debentures at par, and not at market value or with a margin, that if a new system had to be devised, of course, the existing practice would not be adopted, but it hardly seems worth while to make a change now. It is very desirable that the market should take up these securities readily when they are offered. The risk is infinitesimal, as these debentures have only four or five years to run, and they are secured on Indian revenues. It is difficult to ascertain the exact market value, which is always a matter of negotiation. In view of their early redemption they never can go much below par. The answer to question No. 2109† is not clear. There are no Indian debentures running as far as 1930. The Exchequer bonds referred to are British Exchequer bonds. As to the general policy of holding reserves in other countries for the purpose of maintaining exchange, I would especially mention the case of Japan, who is known to keep very large balances in the London market, and of Russia, who generally has very large balances in Berlin, Paris, and also London. One further point I have not before mentioned is the desirability of increasing the amount of rupee loans issued annually in India. It seems to me better that the large hoards that are known to exist should be used for investment rather than by way of deposits in banks which are liable to sudden calls in difficult times

* Cd. 7069, page 101. † Cd. 7069, page 111.

The witness withdrew

Mr. DADIBA MERWANJEE DALAL called and examined.

11,239. (*Chairman.*) You are, I think, senior partner in the firm of Merwanjee and Sons, stock, bullion, exchange and finance brokers at Bombay?—Yes, that is right.

11,240. You have been good enough to supply us with a very interesting memorandum of your views on some of the questions that have been before us, and I propose, as with other witnesses who have done the same thing, to treat that as part of your evidence, and to print it in the appendices to our report*; that will, I think, lead to economy both of your time and ours?—That is right.

11,241. Under the circumstances, I do not propose to take you through the whole of it, but only to ask you some questions on points about which I want to be clear. I understand that this memorandum was written some little time ago?—Yes.

11,242. And possibly before you received the report of the evidence which we have already taken?—That is so, but that has not modified my views in any way.

11,243. That was a question I wished to ask you—whether there was anything at the outset you desire to modify in the light of the evidence which has already come before us?—No, I keep to my original memorandum.

11,244. In the course of your memorandum, you say, in para. 3, page 671, "It is necessary to avoid as far "as possible fresh rupee coinage"; what is your reason for that?—Because the amount of rupees already circulating is large, and you have to take the proportion of the silver coinage to the gold coinage, as is done in England or France or America or Germany.

11,245. Is that quite so?—Yes. I have taken out the figures for those countries.

11,246. I am not asking now as to the exact proportion in the different countries, but I am asking whether you are correct in suggesting that the proportion of the gold to the silver in India ought necessarily to be the same as the proportion in this country?—In all gold standard using countries the proportion of gold money should be larger than the proportion of silver money. The silver money is only token money.

11,247. You mentioned England; do you take account in England of the enormous part played in our currency by paper?—I know that you have a perfect cheque system, but at the same time, while you have 177,000,000*l.* in gold, you have 29,200,000*l.* in silver, while in France there is 300,000,000*l.* in gold, and 102,775,000*l.* in silver; in the United States, 449,900,000*l.* in gold, and 183,975,000*l.* in silver. If you take the proportion in India, the silver rupees outnumber the gold. We have 120,000,000*l.* worth silver rupees, and only 61,000,000 sovereigns altogether.

11,248. Is it your object to get the same balance between gold and silver in India as you find to exist in these western countries?—That is unavoidable on a gold standard basis.

11,249. When you say it is unavoidable on a gold standard basis, do you mean that it is essential to a gold standard, or do you hold that it is the right thing to do apart from any theoretic definition of what a gold standard is?—It is right from the practical point of view.

11,250. For what reason is it in your view right from a practical point of view?—If we have in our currency a large number of sovereigns, it does away with the so-called exchange question.

11,251. And it is with a view to ultimately dealing with the exchange question by the form of the currency, and without reference to any special reserve, that you recommend this proposal?—Yes, that is my idea.

11,252. India, of course, is in the meantime a very long way from that position?—The gold acquired by a nation cannot be accumulated in one or two years. It is laboriously collected by working for it for 20, 30, and 50 years, and unless this Commission lays down a programme that the future coinage will be more gold and less silver, we can never reach the proportions.

11,253. What, at the present time, in your view decides the question of what the coinage in India is to be? Suppose that to-morrow the Indian Government found itself short of currency, what, in your view, decides what they should coin?—They should do their utmost to persuade the people to take gold, which is full-value money, and not silver; the silver rupee is only tenpence bullion value.

11,254. It is token money?—Yes.

11,255. At the present time, is it not the case that what they do is to give the people whatever they ask for; that is, they provide the coin that the people want?—You must recollect that the people are ignorant people; 93 per cent. of the people in India are illiterate. When they handle rupees, they believe that they are the same rupees as their father handled or their grandfather handled. They do not thoroughly understand the difference between a full-value coin and a token coin, and a Government like the British Government should endeavour to push gold into circulation.

11,256. Are the people of India injured in any way by having a token coin in internal circulation, as long as the Government maintains exchange, so that if they want to change the token coin for exchange purposes, they can turn it at its face value into gold?—The exchange question does not affect the masses of the people; it only affects a very small percentage of the population. When a Government like the British Government has to provide a currency, it must provide a full-value currency for the people, the more so as they are an ignorant people.

11,257. I am not sure that we should all of us accept that doctrine as the duty of our own Government in England?—The duties of the Indian Government are more parental. They have to guide the people, and they have to protect the people.

11,258. I quite agree that they must protect the people. What I do not quite follow is in what respect you think the people are injured by having a token currency. I suggested, that if they were protected when they wanted to use their currency for exchange purposes, by the Government maintaining the exchange, they would not suffer loss. Your reply to me was, that hardly any of them were concerned with exchange at all; and I quite agree with that. Now, take that great mass of the people who are only concerned in transactions within India, what is the advantage to them of having a gold coin over having a token coin?—Because it is a full-value coin, and they pay for a full-value coin. If they pay for a bottle of champagne and they are given a bottle of beer, that is not the same thing.

11,259. But if they take a sovereign, can they buy more for it than they can buy for 15 rupees?—Not as long as the present arrangement lasts, but from the bullion point of view they cannot get so much.

11,260. As long as the present arrangement lasts, that is to say, as long as the exchange is protected, can they get more for a sovereign than they can get for 15 rupees?—No; they cannot at present.

11,261. You go on in the same paragraph (page 671, para. 3) to say, and I am not quite certain what you mean by it, that "to secure the confidence of the Indian "people, currency notes should be made bullion certificates pure and simple"?—There should be no investment reserve; the whole reserve should be metallic.

11,262. Do you mean that for every note that is issued, there should be silver or gold of an equal amount held in reserve?—Yes, that is so. If you take a Bank of England note as it is in your pocket or my pocket to-day, the Bank of England has more gold than would be demanded if every note that is sent out from the Bank of England, except in its banking department, is presented; that is in the Bank of England there is an excess of gold against these notes.

11,263. But the Bank of England has a fiduciary issue of notes?—It is all covered by the notes which are held by the Bank itself. There are two departments.

* *See* Appendix XXXIII., page 670.

11,264. That may be so at any given moment?—That is their record since 1893. It is referred to in the banking calendars and elsewhere.*

11,265. It is not a legal obligation?—It is not a legal obligation, but in practice the people have the confidence that it is so.

11,266. In your opinion, in the case of a country like India, or perhaps in the case of any country, it is unsafe to have any portion of your note issue on a fiduciary basis?—The American Monetary Commission has been going into this question very thoroughly, and they have come to the conclusion that the notes should be based on metallic reserves and discounts, not on metallic reserves and Government debts like consols or rupee paper.

11,267. Now you are introducing another subject when you speak of metallic reserves and discounts. Do you suggest that any portion of the Indian note issue should be based on discounts?—When the people are able to understand them further, and when they are quite prepared to take the notes freely. They do not accept the notes in India as freely as they do in European countries at present.

11,268. Who would settle what discounts shall be accepted?—When note issues are analysed, you will find that the current notes which are in France and in Germany are based on bullion and on discounts; it is only in England, America and India that the notes are mainly based on metal and Government securities.

11,269. Do you contemplate that the management of the note issue ought to be entrusted to a bank; I think in your memorandum you say the opposite?—The bank can manage it, but they should only be brought in as managers.

11,270. Do you mean the bank should manage the discount part?—Speaking of India, you should remember that it is not the note issue of a homogeneous country like, say, Germany, where every man is ready to accept the Government notes. Then notes in India are not like the notes of the Bank of France, where every man has to accept them, and where they fully accept them, in preference to metallic money. In India the whole preference and the whole demand is for metallic money.

11,271. The circulation of notes has risen very largely, has it not?—You have to take the proportion when you examine the circulation of notes. You have to ascertain how many fresh rupees have been put into circulation; how many sovereigns and how many currency notes. If you take the active circulation of the notes, you will see that it has not made any remarkable proportionate progress, although the notes are more numerous now than they were.

11,272. I am not quite certain that I rightly understand you, but I gather that when the Indian people are educated up to that point, you would hope to see a great extension of the note issue?—Yes. It should come from within, and it does come when the people are well united, when education is spread, when industrial demands require more money and so forth; then they will come to that stage.

11,273. But you think that until they are much more highly educated they will not trust to notes for which there is no visible bullion held in the reserve?—That is what I think is the position.

11,274. Therefore, in your opinion, no portion of the currency reserve ought to be invested?—Not for the next few years—not until the people are advanced.

11,275. The statements in this paragraph are, to a certain extent, dealt with in the later portions of your memorandum, but they are summarised here. I now proceed to the next one, which is that "the metallic "reserves should be located in India" (para. 3, page 671). Do you mean that to apply both to the reserve for currency and to the reserve for exchange?—Yes.

11,276. That is to say, to the paper currency reserve and the gold standard reserve?—The paper currency reserve is undoubtedly required only in India. It has no function to perform in this country.

11,277. Do you mean it to apply to the gold standard reserve also?—The gold standard reserve, I think, should also be in gold and wholly in India.

11,278. I think, from what you have said, you are looking forward to a time in the future when perhaps a gold standard reserve might be dispensed with, owing to the large circulation of gold coin in India, but in the meantime I take it you would quite agree that there must be a gold standard reserve?—There must be a gold standard reserve in the meantime.

11,279. I think you would like to see it larger than it is at present?—Yes. I have stated the amount in paragraph 50 (page 680).

11,280. You say there, "If the reserves of the "paper currency are made entirely metallic and con-"sist mainly of gold, then 25,000,000*l.* of gold in the "gold standard reserve fund would be ample." Therefore you feel that the amount of gold in the present gold standard reserve is inadequate?—Unless you bring it up to 35 millions; if you have the fiduciary portion removed, 25 millions would be sufficient.

11,281. There are not 35 millions there now, are there?—We have at present 20 millions in the gold standard reserve.

11,282. Therefore, in the first place, you want to see it increased?—Yes. It can only increase if silver rupees are coined; it cannot increase automatically. There must be at present a gold coinage and a rupee coinage concurrently, but the Government should take care that the gold is more pushed into circulation.

11,283. That brings me to a question that I want to put to you: Let me take an extreme case; suppose the Government pushed gold so much that no more rupees were coined, then the gold standard reserve would not grow, would it?—Exactly; if no rupees are coined there is no growth of the gold standard reserve.

11,284. Yet it would be some years before the amount of gold that was in circulation would be sufficient in your view to maintain exchange unaided by the reserve?—Yes. If active measures are taken from now, then in a certain number of years we become quite independent of the gold standard reserve.

11,285. But in the interval?—In the interval the reserve should last.

11,286. In the interval you want a bigger reserve than there is at present?—Yes; 30 millions to 40 millions are quite ample to the present proportions of trade.

11,287. Suppose the Government had got a million sovereigns, and suppose it rested with them to put into circulation rupees to the face value of a million sovereigns or that same million sovereigns; I understand you would say that you would prefer to see them put the gold into circulation?—Exactly.

11,288. But in proportion as they did that, they would be unable to strengthen their resources. Now, where would the million sovereigns have been most useful for the maintenance of exchange—held in a central reserve like the Gold Standard Reserve, or scattered up and down India in circulation, and possibly some of it in hoards, if you will allow me to use that word?—A bird in the hand is worth two in the bush, but if you fill up your aviary with gold birds, you can always catch them when you want them.

11,289. For immediate purposes, and until India is what I may call saturated with gold, would you agree that gold in reserve is more effective than gold in circulation for this particular purpose of maintaining exchange?—For this narrow purpose, as I would call it, it is good; but the Government should take a broad view of the whole currency position, and should build it up in such a way that we should have an excess of gold and less of silver.

11,290. Do you think that the general policy of the nations to which you have referred is based upon those lines?—Yes.

11,291. Do you think that they direct their policy to getting as much gold into circulation as possible? Would it not be rather true to say that they endeavour to build up a great central reserve of gold.

* *See* column 53, page 1206, "The Banking Almanac" (Waterlow and Sons, 1913 edition). *Also see* page 300, Professor Andréade's "History of the Bank of England" (P. S. King and Sons, London, 1909).

but are increasingly using token coins for the purposes of daily exchange?—It has not been so in England.

11,292. I am not quite certain; but what about France?—In France they guard their gold as much as possible; they will not throw it away.

11,293. They do not try and force it into circulation?—Whenever they have it they give it with great pleasure, but not for export.

11,294. Do they give it with great pleasure?—Yes.

11,295. Have you ever tried?—Lately, when they had not enough gold, and when there was a chance of gold crossing the border, they blocked it; but ordinarily they would give the gold.

11,296. At any rate, lately they were trying to keep their gold in their reserves, and were not giving it out freely?—Owing to the Balkan troubles, and to the hoarding demand for gold.

11,297. Now take Germany; do you think the recent trend of currency operations in Germany has been in the direction of forcing more gold into circulation? Has it not rather been in the opposite direction, of attracting more gold to the reserve, and substituting other forms of currency for it?—They want to substitute notes; they do not want to substitute silver.

11,298. Your objection to silver, I understand, is that the bullion in it is not worth the face value of the coin?—Exactly.

11,299. Does that not apply *a fortiori* to a note?—The notes are in Germany based on gold and discount, and that is the most scientific money you can have.

11,300. You give us some very interesting information about the suggestion that India hoards gold; in the true sense of a hoard, you declare that there is no such thing as hoarding gold in India?—That is so.

11,301. I think you point out to us, as other witnesses have done, that certain Indian customs lead to great gifts of gold ornaments on marriage to the women of the family?—In the Hindoo community.

11,302. That, I suppose, is in itself a reserve, and it is intended as a provision for the woman to whom it is given?—It becomes her marriage settlement.

11,303. From the point of view of currency, that is as much withdrawn, is it not, as if it were placed in a box which was then locked up in a chest?—That is only a trade demand for gold. Every country has a currency demand for gold and a trade demand for gold, and the trade demand of India, as I have shown in a special section, is nothing abnormal compared with the population.

11,304. Do you include that gold as part of her trade demand?—That is a part of the trade demand for gold. The gold in ornaments is gold used in the industrial arts. Every country has these two compartments.

11,305. Are the dowries so given drawn upon in later life by the woman, or does she hand them down in the form of gold ornaments to her heirs?—I do not know much about the Hindoo people, being myself a Parsee. If the woman can manage to give it to her own daughter, she will do so, but if necessity requires it, she can part with it. There is a special book, called the Law of Stree-dhan, which describes all this.

11,306. I wanted to ascertain roughly to what extent that was regarded as a reserve, not to be drawn upon in ordinary circumstances, but such as would be drawn upon in times of pressure or for any special needs?—That is the woman's property, and if she elects to give it up, it can be used, but otherwise it cannot be touched by creditors or by any other person.

11,307. You hold the view that the Currency Reserve should be held in India?—Yes, wholly.

11,308. I think the Currency Reserve exists primarily to guarantee the encashability of notes?—Solely for that purpose.

11,309. And they will be presented, if presented at all, in India I suppose; therefore it is in India that you think the reserve which is held against them should be kept?—Wholly in India.

11,310. Now when we come to the Gold Standard Reserve, I think you hold the view that that also should be kept in India?—That is my view.

11,311. The Gold Standard Reserve exists for the maintenance of exchange, does it not?—At present.

11,312. Suppose an exchange crisis arises, where would the gold be required?—The gold would be required in England, but there would be many warnings before the crisis comes. You get weather reports, you get crop reports, you get customs reports, and after that you begin to see that a crisis is likely to come.

11,313. And when you see that, you will begin to ship gold, will you?—Such portion as is required to make up the India Office demands.

11,314. What is the advantage, in your mind, then, in keeping the gold in India in the meantime?—It can form a war chest; it can form also an emergency reserve. The Government of India has enormous demand liabilities in connection with the Savings Bank and other deposits, and they have nothing against them. The gold being India's gold, it should be located in India.

11,315. Are there obligations on the Savings Banks to pay in gold?—They are to pay in cash, but the Government cash is limited. If you look into it, you will see there is a Savings Bank balance of 13 millions sterling, against which there is no reserve whatever.

11,316. If I rightly understand your meaning—and you will correct me if I am wrong, because I do not want to put words into your mouth that do not express your view—you regard the maintenance of exchange as only one of the functions which have to be performed by the Gold Standard Reserve?—Yes.

11,317. Perhaps even not the most important or most urgent?—It is important in the eyes of the Government, but not of the public.

11,318. Do you mean by that answer that it would be of little consequence to the public if the exchange broke, or do you only mean that they do not appreciate the importance of maintaining the exchange?—Out of the 315 millions of people in India, 300 millions do not know about exchange questions, and they are perfectly deaf to them.

11,319. That I perfectly understand; but your answer left me in doubt as to whether you thought that if the exchange gave way, if the attempt of the Government to keep exchange stable broke down altogether, that would be a matter of actual indifference to the whole people of India, and whether in your view that would cause any injury to them?—It would cause injury to the trade of the country, but not to the whole mass of the people.

11,320. Do you think that the mass of the people have no interest in the maintenance of exchange?—They have no personal interest whatever.

11,321. Not only no conscious interest, but in fact it does not matter to them what the course of exchange is?—They never understand it and do not study it. The foreign exchange is only of interest to a very limited number.

11,322. I can understand that they do not study it, but you have studied it, and what I want to get at is your opinion, not theirs. I dare say if I were to ask an Indian ryot the questions I am asking you, he would not know what I was talking about. What I want to know is whether in your opinion it is a matter of absolute indifference to the welfare of the Indian peasant whether exchange is maintained or not?—It is of great importance to the Government and to the mercantile community and to the trade of the community.

11,323. But not to the mass of the people?—They are not conscious of it.

11,324. That is not the question; I am not asking you whether they are conscious of it. I am asking whether in your opinion their welfare would be affected if the Government said, we are not going to maintain exchange?—The troubles of the Government are the troubles of the people. It naturally affects them.

11,325. Then you would agree, at any rate, that one of the objects of the Gold Standard Reserve is to maintain exchange?—That is the object.

11,326. And that must be one of the first things that the Government have in view in the management of the Gold Standard Reserve?—Yes.

11,327. You would agree, I think you said, that in so far as the Gold Standard Reserve was required for the maintenance of exchange it would be required in London when the crisis in exchange came?—Yes, when it comes. But it may not come within the next 15 years, and why keep the gold all the time in London? We can supply it when required. When exchange goes down France will send out gold, Russia will send out gold, Germany will send out gold, the United States will send out gold, and India will send out gold. Why let it remain all the time in another country when we may have a use for our own gold?

11,328. You think, as I understand, that the Gold Standard Reserve ought to be kept in India in the meantime because you might wish to draw upon it for purposes quite apart from exchange?—Yes, if it becomes necessary. Government has used it already for that purpose.

11,329. For what purpose? Are you referring to the use of the million and a half for railways?—I am referring to page 224, Appendix VII., paragraph 33,* where it is stated generally by one of the officials of the India Office.

11,330. It says there "the portion of the Gold "Standard Reserve held in rupees in India has been "utilised on one or two occasions in the past as a "resource from which the Government of India might "borrow"?—Read the closing sentence, please.

11,331. "But it has been recognised and put on "record in a despatch by the Secretary of State to the "Government of India that such utilisation of the "Gold Standard Reserve funds in their hands must "be treated as entirely exceptional and only to be "resorted to in cases of extreme emergency." The use to which reference is made there is the use of the silver portion of the reserve "as a resource from which "the Government of India might borrow, paying "interest on the loan, in order to meet the Secretary "of State's drawings when it has not been convenient "to meet them from Treasury Balances or through "currency"?—It has been used for that purpose, and not entirely for exchange purposes; and it can be used, if a war breaks out, as a war chest. If the people demand the Savings Bank balances the Government will have to borrow or to raise the money by loans if they have not got it in their own hands.

11,332. You do not at all desire, I gather, to see the Gold Standard Reserve maintained merely for exchange purposes?—That is its main function, but in very exceptional circumstances it can be broached in India for other Government purposes. I do not recommend at all that it should be used for any ordinary purpose.

11,333. You would use it only exceptionally?—Very exceptionally.

11,334. If you had the Gold Standard Reserve money in India I presume you would desire to see it kept in gold?—It can only be kept in gold there.

11,335. You have no idea of having it in short-dated investments there?—No.

11,336. What is your view as regards the silver in the Gold Standard Reserve?—I think there should be no silver in the Gold Standard Reserve. I think that branch should be closed.

11,337. You are anxious, I think, to see a mint opened in India for the coinage of gold?—That is so.

11,338. You desire, as I understand, to coin sovereigns?—From the Imperial point of view I think the sovereign is the better coin; from the national point of view a 10-rupee gold coin is the better coin.

11,339. Might not the 10-rupee gold coin seriously interfere with the circulation of the 10-rupee note?—I do not think so, because those who want metallic money will only take metallic money.

11,340. You do not think there are any number of people who now take notes who might be tempted by the 10-rupee gold piece?—They will not be tempted.

11,341. I am not quite clear from your memorandum what amount of gold you think would come to the Indian mint to be coined; do you think that the produce of the Indian mines would all go to the Indian mint?—I think it must go ultimately.

11,342. Some time ago, when communications were passing between the Secretary of State and the Indian Government on this subject, I think it transpired that those mines were under contract to sell their gold in London?—The gentlemen who manage these companies are practical business men, and if they can get a better return by tendering the gold in India they will not transfer it outside India, as the shareholders are sure to complain.

11,343. You do not know whether they have any such contracts running now, or for how long their contracts exist, do you?—I have no personal knowledge of that.

11,344. What other gold, do you think would come to an Indian mint?—When exchange is at gold import point, gold will come from many countries to India. The Governor of the Bank of England in a written statement to the American Monetary Commission said that when they raised the Bank Rate to 7 per cent. on November 7, 1907, 24 countries sent gold to London; so, when we have a strong balance of trade in our favour, we will be receiving gold from many countries. If gold is being discharged from Germany or France or Italy, it can come to India if we have an open mint.

11,345. Do you understand the statement that you have read,—I have only just heard of it from you—to mean that it was always uncoined gold that was sent to the Bank of England?—It may come in the form of uncoined gold or any kind of coins; the Bank of England is ready to take anything.

11,346. If it comes to you in the form of gold coin you do not propose to melt it down and re-coin it, do you?—If a buying authority for gold is constituted in India like the Bank of England or the Currency Department it is at their option whether to keep it in the shape of sovereigns or in the shape of bars. The Bank of England does not send all the gold it receives to be melted down into sovereigns; it keeps the gold for re-export if required.

11,347. What are the practical advantages which in your opinion would accrue to India from the possession of a mint for the coinage of gold?—It is an inseparable portion of the financial system.

11,348. In what sense is it inseparable?—What is India's standard of value? What is the value of an ounce of gold in India to-day? You have two authorities established in England. The Bank of England is bound to buy it at 3*l.* 17*s.* 9*d.* under the Bank Charter Act of 1844; and the Mint is bound to coin it at 3*l.* 17*s.* 10½*d.* into sovereigns within 15 days. The standard of value, therefore, is 3*l.* 17*s.* 10½*d.* for an ounce of gold in England, but in India we have no standard of value.

11,349. There is no mint in South Africa?—That is so. In order to appreciate the facts you have to see what is the amount of circulating gold and silver and notes in South Africa. In South Africa they produce an enormous amount of gold, but they require very little for their internal purposes. They would be losers by having a mint.

11,350. Is there any standard of value in South Africa? Does the presence of a mint create a standard of value and the absence of a mint imply that there is no standard of value?—The presence of a mint does create a standard of value. In India, for instance, if you want to sell an ounce of gold to-day nobody is bound to buy it; the exchange banks will buy it for export to a gold standard country, but they will first charge their own commission, and then take off the cost of transmission and all the loss of interest that they suffer by locking up their money.

11,351. Do you think there is a great deal of uncoined gold in India which would be tendered for coinage at the mint if it were opened?—A certain amount of gold will turn up for coinage, and it will happen, as it happens in this country, that gold will be tendered for coinage, and I believe it will be brought in on the other side for trade purposes.

11,352. As regards the sale of Council Bills, is your position that the Government has brought too much money to this side, or is it only that it has brought the money unnecessarily soon and that it should have left it in India as long as it could?—By

* Cd. 7070.

the method of selling extra Council Bills the Budget is not carried out.

11,353. May we go a step further back? Is it not the fact that either the revenue is greater than the Budget estimate or that the expenditure is less than the Budget estimate? Is it not owing to one of those two facts, or to both of them in combination, that there are funds in India against which additional Council Bills can be sold?—Yes, there is a surplus in the Budget, and then these additional Council Bills can be sold. But should they be sold?

11,354. Do you think that when once the Budget requirements have been satisfied no more Council Bills should be sold?—Not by the India Office, without the matter being discussed in our Legislative Council, and then being brought up in Parliament. The Budget has to be carried out as a budget, but under these arbitrary powers the programme of the Budget is not carried out.

11,355. Your objection, then, is not so much to what is done as to its being done without a preliminary discussion in the Legislative Council of any alterations from the original estimate?—Yes. If my suggestion is adopted it will lead to an accurate estimate being formed. At present they underestimate, because they are afraid they cannot raise loans in London, and then they convert the surplus into building railways.

11,356. But when they realise a surplus——?—Then the distribution of the surplus must take place as settled by the Legislative Council after full discussion.

11,357. Your objection to the present system is not, as I understand from what you are saying now, so much to the fact that they have brought additional money to London, but that they have done so without the sanction of the Legislative Council?—That is one portion of my objection.

11,358. That is, if I may say so, rather a political than an economic objection?—No; it is as much economic as political.

11,359. What is the economic objection?—If the revenues are in excess the surplus must be applied for the benefit of the people. In England you have an enormous debt—your National Debt is 724 millions and your deadweight debt is 674 millions. We have only a deadweight debt of 12½ millions, and if they go on at the present rate they will extinguish it in a year or two. It is necessary for Great Britain to cut its deadweight of debt year after year, but it is not at all necessary for India.

11,360. Do you object to the application of surplus revenues to capital developments?—It must be in proportion to the other requirements of the country. You cannot devote the whole proceeds entirely to the railways. There is the demand for railways and there are the other demands—the demand for education, the demand for sanitation, and the other practical purposes for which India is requiring money.

11,361. (*Mr. Gillan.*) What would you have diverted the money to in the last three or four years?—The first thing is, why is an excess produced?

11,362. Having the excess, what would you have done with it?—You can spend it for improving the people in a thousand ways.

11,363. Have you any doubt that the Government has, as a matter of fact, enormously advanced their expenditure on education and sanitation in the last few years?—You should judge it by the proportion of the results.

11,364. Do you think they could have gone on faster with that programme?—They could have gone on faster with that programme and with other programmes.

11,365. (*Chairman.*) Would you have desired to see them do less railway development?—No. If they can build railways with borrowed money they can build them to the full extent, and instead of a 12-million programme they can have a 20-million programme. If England will supply us with 20 millions we could certainly take that money and build up our railway and irrigation systems.

11,366. If I understand you rightly, your view is that railways ought to be built out of borrowed money and that the surplus ought to be left for non-remunerative expenditure—I mean expenditure like education and sanitation, which is not directly remunerative?—There is no doubt that the Government allow a million of the Savings Bank deposits to be converted into railways, and then there is a famine fund from which half a million is converted into railways. What is required is to get borrowed capital for the railways either from England or India.

11,367. I am asking you these questions because nearly every witness who has touched on this subject at all has urged the need for a much larger expenditure in railway development?—I can quite think that, but the India Office should raise that money, and they should not tax the present generation in order to build the railways.

11,368. Do you think that they could have safely raised in recent times much larger sums than they have borrowed?—Every year in England, 200 millions are given out for investments, but the India Office is only able to secure for us 6 millions or thereabouts. If you take the years 1909–10 to 1913–14 you will see the amount borrowed was 32,873,000*l.*, which gives an annual average of 6,574,640*l.*

11,369. Do you suppose that without breaking their rate and without paying much higher they could have raised very largely increased sums in England in recent times?—That is a question for the India Office to answer.

11,370. I thought your memorandum was based upon the supposition that they had only to apply to the London money market, if they wanted 10 millions where they now take 5 millions, in order to get it?—They may or may not get it. It is how they work the India Office. Canada gets enormous sums of money.

11,371. At 3½ per cent.?—I do not know exactly the rate, but if you take the destination of the capital that is exported from London you will see that very little comes to India.

11,372. Do you think that more money could be raised in India by loan?—If the Government helps properly to build up the money market, then year by year we will have a broader basis.

11,373. What do you mean exactly by "if the "Government helps properly to build up the money "market"?—If they do not lock up the money in their reserve treasuries; if when the loans are floated they let the proceeds be absorbed gradually by the money market. If they recast their whole financial machinery and put in modern machinery, then the whole thing can be expanded.

11,374. Would you like to see them lend from their balances when they had sufficient sums available?—I would like to see them bank their surpluses entirely with the Presidency Banks.

11,375. And place the whole amounts with the Presidency Banks?—Yes; they should keep no reserve treasuries.

11,376. Should they give that money free of charge to the Presidency Banks?—They should give it free of charge to the Presidency Banks, and they should compel the Presidency Banks to open more branches. What India at present wants is a number of branches of the Presidency Banks.

11,377. Do you think that it would be safe for them to place the whole of their balances with the Presidency Banks without security?—That is my opinion.

11,378. And that they would be richly remunerated for doing so by getting more branches open throughout the country?—That is my opinion.

11,379. (*Mr. Keynes.*) There are a few small questions of fact, not very important, that I should like to ask about. You quote an estimate of there being 40 million sovereigns in circulation in India at the present time, on the authority of the Comptroller-General a year or two ago. My impression is that 60 crores would represent the absorption of gold, and there is no evidence that that amount is circulating?—It is a Government estimate, and I put in the Government's exact words in the second paragraph of my note (pp. 670–1 of Appendix XXXIII.).

11,380. Does that mean that you think it is an accurate estimate?—I think it is approximately accurate.

11,381. You argue in para. 13 (p. 674) that if the Comptroller-General's estimate is correct then only 600,000 sovereigns have been melted on the average each year; does not your experience as a bullion broker lead you to suppose that far more than that must have been melted over the whole of India?—It is cheaper to melt the gold bars that are imported than it is to melt sovereigns, and so the people will not melt sovereigns. If you take the report of the British mint and see how much gold is missing in the average circulating sovereign, you will come to the conclusion that it is much cheaper to melt the gold bars that are imported by the bankers.

11,382. For some purposes I understand that is so, but we have always been told, as I think the Comptroller-General himself has reported, that when sovereigns are only wanted in small quantities in up-country places, it is often a convenience to melt down sovereigns?—I have no knowledge of up-country.

11,383. In para. 15 (p. 674) you quote an assertion that 60 millions in gold was hoarded on the Continent during the Balkan disturbances; nobody knows how much the hoarding was, but was not the greater part in the form of notes?—No, in the form of gold. If you read the *Economist* of this year you will see there are some letters and statements about it.

11,384. I know it was stated, but is it not almost certain that it was not the case? Was it asserted in Austria and Hungary that notes were at a discount?—The notes went to a very heavy discount. There was a special letter written two or three months ago about it.

11,385. The notes have not been at a discount in the country itself, and what the people hoarded must have been notes because there was no gold for them to hoard. These figures refer to the amounts of money that had been hoarded and not to the amount of gold?—We had a telegram in Bombay quoting these words of the Chancellor of the Exchequer, and I put them in. That is all I can tell you.

11,386. Then you say that there is no rebate on the export of silver which has paid a tax on import; is that so, because I did not know that? In para. 23 (p. 676) you imply that if silver is imported and a tax paid, on re-export the tax cannot be recovered?—Not the full amount; they cut off a portion of it.

11,387. How much do they cut off? When the duty is paid on silver, of the silver re-exported how much is allowed back?—One-eighth is taken by the Government. If you pay 15 per cent. and they take one-eighth of it, it is a big slice, is it not?

11,388. What is the reason for the Government's policy in that particular; has it been explained?—I cannot tell you. Mr. Gillan will be able to tell you.

11,389. In para. 35 (p. 678) you speak about light-weight sovereigns, and you complain that these sovereigns have to be remitted back to London. I suppose the reason for that was that the English Exchequer is willing to bear the expense of the loss of gold, and that if they were sent back to England that loss would fall on the English Government. Do you propose that it should fall on the Indian Government instead?—If we had a gold mint it would have saved us twice 13,600*l.*

11,390. In that case you would have borne the loss through the deficiency of weight?—I do not think the deficiency of weight will come to so much as compared with the cost of remitting the coin.

11,391. Your proposal is, anyhow, that the Government of India should bear the deficiency in the weight and not the British Government?—There should be an agreement between them how the loss on the coinage is to be proportioned.

11,392. It is a difficult question, because in one report of the Comptroller of Currency he states that these light-weight sovereigns were mostly sovereigns from Egypt, and that they had lost their weight in Egypt through a certain amount of sweating which goes on there. Would you propose that the Indian Government should bear the loss on such light-weight sovereigns as may be imported from Egypt, or that they should be sent back here as at present?—If it is legal tender money the Government is bound to accept it.

11,393. They are bound to accept it, but at present they throw the loss on somebody else?—They cannot throw the loss on somebody else. They can issue it as long as the coins are of legal value, but when they are below legal value they have to dispose of them as best they can.

11,394. If they ship it back to London, losing the freight that way, they can then recover this loss from the British Exchequer; but you are in favour of their abandoning their present privilege of throwing this loss on the British Exchequer?—If you are circulating gold in your own country you must purify the coinage, but we are not allowed to coin gold. If we have a gold coinage we must keep it pure, the same as the British Exchequer does.

11,395. In answer to the Chairman, you said that the Indian standard was non-existent, because there was no authority which undertook to buy gold at a fixed rate. Up to 1906 the Government of India were compelled to do that without anybody taking much note of it; after that date they ceased to do it. Is it your opinion that the whole nature of the Indian standard was changed by the withdrawal of that notification?—Very much so. In 1893 they issued a notification that Government will buy any amount of gold at a standard; in 1900, when gold began to fall in, they said they would not pay for the gold for 60 days. You will see that stated in Appendix V., p. 110, para. 4 (Cd. 7070). That means that they blocked gold altogether from 1900 by imposing the 60 days' penalty.

11,396. In your opinion was that a very vital change?—It was a retrograde change undoubtedly.

11,397. If they reversed that policy and expressed their willingness to purchase gold, would that not meet your point?—The Government should not only buy gold but they should mint it also.

11,398. Why should they mint it if they were willing to buy it; what good would that do?—The Government is not a bullion dealer, is it? If they buy gold, what will they do with the gold?

11,399. (*Chairman.*) Look at paragraph 38 of your memorandum, p. 678, which is headed "The Government to buy and sell gold"?—That is concurrently with the mint, the same as the Bank of England does. You have to remember that the Bank of England is prepared to buy any amount of gold at 3*l.* 17*s.* 9*d.*, and the British Mint is bound to coin any amount of gold at 3*l.* 17*s.* 10½*d.*

11,400. Do you not recommend in that paragraph 38 that the Government of India should become bullion dealers?—Combined with the open mint, yes; but if it is without an open mint then the Government would embarrass itself with a quantity of gold.

11,401. You say in that paragraph "From the gold "held in the Paper Currency Department the Govern-"ment should manufacture, and sell as near cost price "as possible, gold of various fineness as is required "for ornaments by the Indian people"?—That is what the Americans do through the American mints, and the American assay offices; to prevent coins being melted, they supply the goldsmiths with gold for this purpose.

11,402. Just now Mr. Keynes asked you whether you did not think it would be desirable that the Government should reissue their notification that they would buy gold?—That they should buy it concurrently with an open mint.

11,403. And only if there is an open mint?—There should be both together, otherwise the Government becomes a trader, and will interfere with banks and others.

11,404. Do they not become a trader when they sell gold for trading purposes?—When it is done concurrently with an open gold mint it is just a very small portion of the work.

11,405. (*Mr. Keynes.*) You propose that gradually India should get rid of her rupees, and have sovereigns instead; would you push that to the point of melting

down rupees?—No. The present currency is 200 millions; by 1950 it will be near 500 millions. You must build up a big gold currency with a smaller rupee currency.

11,406. Your proposal is based on the hypothesis that there is going to be a very large increase in the circulation, but not in the form of notes?—Yes. Even if there are notes, there is at the back of them gold and silver.

11,407. You do not suppose that by 1950 there will be a certain amount of credit currency development in India; you are assuming that while there will be this enormous increase in wealth and development, nevertheless there will be a complete absence of credit currency, as there is at present?—As time progresses people will take more notes. The notes is the first thing that I recommend. The second thing I recommend is gold; preferentially notes, of course, because they centralise the gold and put it into the control of the Government.

11,408. The encouragement of gold might stand in the way of notes, and if it did not, if the notes went on as one wished them to, then it must get in the way of rupees?—I have not caught the question.

11,409. (*Chairman.*) Mr. Keynes said that the extension of the gold currency must stand in the way of notes, or if it did not stand in the way of notes it would stand in the way of rupees?—It will only stand in the way of rupees, not in the way of notes, because those who are willing to take the notes will take them. But the larger portion of the country only wants metallic currency, and my suggestion is that gold should be pushed into the currency, and certainly not silver.

11,410. Mr. Keynes suggests that, under those circumstances, it might result in the existing rupees coming in from circulation?—They will not come in from circulation, because a large portion of the people of India are not even at present able to use legal tender money. I am referring to half-rupees, rupees, sovereigns and notes. A large portion of the people have only copper money, bronze money, nickel money and 4-anna and 2-anna bits.

11,411. (*Mr. Keynes.*) You feel sure, then, that the use of gold cannot possibly go very far, except after a great number of years?—The use of gold will continue.

11,412. But it cannot be used to any preponderating extent for many years to come, you think?—If the Government properly regulated its currency, the demand would go on. If Government pushes gold in place of the valueless rupee, it is better for the whole country.

11,413. If the existing number of rupees remains in circulation, you must have some arrangements like the existing ones to maintain your parity; if gold replaces that, then you must melt them down?—Gold is not going to replace the present rupees. When the less civilised people become a little more civilised, they begin to use rupees, and the other people will begin to use gold and notes.

11,414. Your assumption is based on two hypotheses, first, that there is no danger of gold being a rival to notes, and secondly, that there is no danger of gold turning out existing rupees; are not those your two hypotheses?—If gold becomes a rival to notes, it does not cause any damage, because the notes are based on gold.

11,415. You suggest in one part of your memorandum (para. 54, p. 680) that the Gold Standard Reserve should be held in liquid gold, and in para. 60, p. 682, you propose that the Currency Reserve should also be held in liquid coin, and that the present securities there should be transferred to the Gold Standard Reserve?—It is only because we have six crores or four millions sterling of rupees belonging to the Gold Standard Reserve, and six crores or four millions sterling of Consols. I am saying that the Consols should be given to the Gold Standard Reserve, and the rupees should be put into the Currency Reserve.

11,416. That is inconsistent with your other proposal, that the Gold Standard Reserve should be held all in reserve?—I am saying that the Gold Standard security should be liquefied. Will you kindly look at para. 54 (p. 680).

11,417. Do you mean that these Consols, as soon as they have been transferred, ought to be sold?—Yes.

11,418. (*Mr. Gillan.*) I take it that you do not approve of the use which the Government of India have made recently of their balances in devoting so much to capital expenditure?—That is so.

11,419. I want on that point to read you the remarks that were made by the Finance Member in introducing the financial statement last year. He said: "There are enthusiasts for education and enthu-
" siasts for railways; the Government of India have
" to hold the balance between them and endure the
" disparagement of both. I have always been opposed
" to any hard-and-fast rule. The distribution must be
" determined on consideration of requirements at the
" time of the allotments" (H. of C. 130 of 1913, p. 19). I take it that your view is that there should be a hard-and-fast rule, and that in no case should any part of the surplus be allocated to capital expenditure?—There should be a reasonable proportion. I am a believer, and a great believer, in the development of the Indian railway and irrigation systems, but that should not be done at such a price as to outrun the progress of the community in other directions.

11,420. Do you think that too much has been given to capital expenditure?—Too much has been given to railways, or too much taxation has been taken from the people.

11,421. Do you think that the policy of the development of education and other improvements of that kind has been unduly delayed in consequence? Would you have been prepared to allot more for education than has been allotted in the last three years?—Yes. I think it would have produced better results.

11,422. These things cannot be done in a day?—No. There was Mr. Gokhale saying that they had made an educational Budget so that in 30 years or 40 years all the people will be educated, but if they go on at the present pace they will not be educated for 70 or 80 years. I remember reading some such discussion on education in the Imperial Legislative Council, in which it was urged that you should speed up education and a great many other things. Even in England you had a Development Commission two or three years ago, and they reported and a great many things have been done. Every-day you read how the people in England are uplifted, and you see that the Chancellor of the Exchequer is now trying to uplift the agricultural labourer, and all these people. What are the efforts that are being made in India?

11,423. Is it not the fact that in respect of these departments, education and sanitation, the provincial Governments have very large balances ear-marked which they have not yet been able to spend?—Yes, for those purposes, but the uplifting of a nation can take place in a great many ways, not only on those points that you have just mentioned. The chairman can describe to you how a nation can be uplifted, how these political people in England work for it and strive for it. The same processes can be applied to India. Any amount of money can be spent in India if you want to spend it.

11,424. Do you remember any other scheme involving large expenditure which has been urged on the Government and which has been refused?—No. My contention is not that way. I say that too much money is raised for capital expenditure from the pockets of the people.

The witness withdrew.

TWENTY-SEVENTH DAY.

At the India Office, Whitehall, S.W.

Thursday, 13th November 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir GUY D. A. FLEETWOOD WILSON, G.C.I.E., K.C.B., K.C.M.G., called and examined.

11,425. (*Chairman.*) You have been good enough to attend here to-day by request to give us any assistance that you can. We have had a very full account of the detailed working of the Indian budget system from official witnesses, and I do not think that I need trouble you with any questions on details of that character, but there are two or three large questions of policy on which the Commission would be glad if you could give them the benefit of your experience. May I take first the question of the establishment of a gold mint in India. I have had an opportunity of reading some references to the subject which you made in your last financial statement,* but it would be of assistance to us if you would tell us what your attitude is towards that proposal. I may say that there has been a very considerable divergence of opinion among the witnesses that have come before us, and therefore we should like to hear your views on the subject?—One of the three things which struck me rather forcibly when I first took up my appointment in India was the possibility of coining gold on a modest scale, if it were considered advisable to do so. I consulted all those Indians who I thought would be able to give me guidance in the matter, and I think one of your colleagues, Sir Shapurji Broacha, with whom I became a great personal friend, will tell you that the whole of my attitude whilst in India was to endeavour to get in close touch with Indian opinion. The impression that I received was that there was a distinct and strong desire on the part of Indians, not perhaps quite so much amongst the English but certainly amongst the Indians, to be able to mint a gold coin. Sir Shapurji Broacha used a very happy expression, which has become historical; he called the sovereign the Cement of the Empire. I adopted that very term myself, I think, in my last financial statement. My desire at first was to mint a sovereign on the lines of the Australian sovereign, which this Commission will remember has the word "Australia" printed across it. I never proposed to go beyond that, that is, having "India" instead of "Australia." I think that would have met a distinct and a strong desire on the part of India to have their own gold coin. As time went on, I considered the alternative of coining a smaller coin, which struck me as advisable, because the sovereign is rather a large denomination for the ordinary Indian to deal with. I should have stated my views rather more fully and rather more emphatically on the last occasion in India, had it not been for the fact that I did not think it would have been respectful to this Commission, which had just been appointed, to dogmatize on a subject which was obviously removed from my purview to your purview; therefore I tried to place the matter in an academical form, so to speak, before the Legislative Council. I think that a very exaggerated view has been taken of what I originally intended to do. I think that an exaggerated view is taken now in many quarters as to the volume of this coining. My own impression is that it would always be of a very limited character, and that by it you can meet a national sentiment which I think is a legitimate one and which I think without large expenditure could be met. I think that the amount of bullion would be small, which would be taken to be minted, and I think that under certain conditions the Mint might extract a certain amount of gold which is now tucked away in the form of ornaments or of bars, not, of course, from the great holders of bar gold like Mysore, Hyderabad and the other large States, but I do believe it to be the practice in the case of the large zemindars, especially in Bengal, where they are almost princes in the sense of incomes, and of the small States, that they put by for a rainy day a certain amount of bullion and a certain amount of gold in ornaments which never see daylight. They are old-fashioned ornaments, very heavy gold bangles and so forth, which the ladies of India no longer care quite so much for, their taste having changed in favour of more modern jewellery and precious stones. I may be wrong, but the impression I have received is that those would be under certain conditions brought out on certain occasions. The Indians are invariably liable to a considerable degree of personal outlay on three occasions, the marriage of a daughter, the coming of age of a son, and funerals. I am speaking in the presence of people who have experience of India, and they will correct me if I am wrong. On these occasions the practice of a great many of these rich zemindars is to pledge their gold bullion to the marwaris and the bunnias, in the hope of getting it back. Some of the smaller men spend more than they can afford, and do not get it back, but it goes back in that form somewhere else. I believe myself, though it is impossible to prove it, that these reserves—I think it is a misnomer to call them hoards—are nowadays very much like the reserves of a very rich man who hangs very valuable pictures on his walls. I think if it were held in liquid sovereigns, the tendency would be to let them out much more readily, and I think perhaps even more lavishly, and then they would more or less remain in circulation. To that extent. I think it would be an advantage in hard times or in times when special expenditure faced the holders of these small reserves: I think then the tendency would be to bring it out. However, I quite admit that that is an argument which, after all, is based on personal opinion, and I would not advance it as a sufficient reason for coining gold in Bombay. The main reason is that I think there is a strong feeling in favour of an Indian gold coin. That is certainly my impression, and I have done my very best to make myself acquainted with the feelings of Indians on the subject. I have done my best, and I think my relations were intimate with the Indians; I may be mistaken, but certainly the impression I received is that there is an almost national desire to have an Indian gold coin. They are very tenacious and very touchy about the differentiation between India and the colonies, and I think that is a little grievance in India, and if you can remove this sentimental grievance, it will be a very advantageous thing to do so. I would give them a small mint in Bombay, so that, just as they now boil

* *See* H. of C. 130 of 1913.

down their jewellery and sovereigns into gold bars, they could have the opportunity of reversing the procedure and turning such gold bars and gold ornaments as they possessed into gold coins.

11,426. I think I am right in understanding that the national sentiment of which you have spoken, would, in your opinion, be satisfied by the coining of an Indian sovereign?—I think so. Perhaps they would prefer to coin a specially Indian coin which would appeal to Indian sentiment, but I think the breaking down of this denial, so to speak, of their right to coin gold would have a good effect; and I think it would quite satisfy them if they had any coin which was especially Indian. I did propose coining the sovereign, and the Government accepted my views and a despatch was sent home advocating it, because we thought on the whole that it perhaps was better than embarking on an unknown quantity such as a 10-rupee piece. But the 10-rupee came to the forefront again, owing to the difficulties which do exist and which are quite legitimate difficulties, as I need hardly tell an ex-Chancellor of the Exchequer, in regard to passing sovereigns. That raised the question of handing over the Indian Mint to the English Mint, or to its control at any rate. There you at once create a greater objection than now exists. They are most tenacious about English interference with the departments in India and if there is one department which is thoroughly satisfactory in India it is the Mint. The Mint produced during my tenure of office a new rupee, and I have had an opportunity of submitting that new rupee, to numismatists in Germany, in France and in Italy, and they all tell me it is a very remarkably fine specimen of minting. We have built up the Mint with great labour and great trouble, and we are most loyally served by conspicuously able people in the Mint, and I think it would be downright cruel not to recognise that. They have produced two coins which I am assured are second to none, and I think they are a marked improvement on some of our English coins. The 1-anna piece—what I call the fluted anna piece—we were assured by every Mint Master in the world could not be beaten. I happen to have two coins here; I do not know whether the Commission would like to see them.

11,427. Perhaps you will be good enough to hand them round?—Certainly. The 1-anna piece is admitted, I believe, to be one of the very best coins that ever was made. We have got over the difficulty of punching it by adopting this fluted condition without spoiling either the obverse or the reverse. I produce a specimen of the silver 1-rupee, a nickel coin of one anna, and another coin which is the result of the effort of the English Mint to produce a 2*s.* piece of a creditable character. I confess I adhere to the view which I expressed to my old friend Macartney, when I told him that I thought it was a disgrace to his institution. The Indian rupee is a beautiful coin.

11,428. I would like to ask you a question which arises out of what you have said. What you have said has impressed me very much, but at the same time I confess to a reluctance to see a new gold coin made in the Empire, which would, I suppose, have a rather local circulation, at the expense of a coin which is the coin of the whole Empire?—Are you alluding to an Indian sovereign, or a specific Indian coin?

11,429. I am alluding now to a specific Indian coin. I should be very reluctant to see a specific Indian coin and not the sovereign minted?—I agree with you. That was my original attitude in regard to the matter. I think all things considered it would be advisable to have a coin with merely something on it to show that it was coined in India,

11,430. Would it not be the case if we coined a 10-rupee piece that whatever advantages it might have it would have this disadvantage, that it would probably enter into serious competition with the Note issue?—I do not think so. I know that is the official view taken, but I believe, although it sounds a paradox, that it would strengthen the 10-rupee note. If they had any doubt about their 10-rupee note and they could get its equivalent in gold over the counter, I think it would strengthen the position of the note. I do not think, therefore, that the 10-rupee piece would compete with the note, while I think it might reduce the tendency to keep the notes in the background.

11,431. You have said that quite legitimate difficulties arise in the way of the Treasury abandoning their control over the other Mints of the Empire in respect of the gold coinage; but do you think that the conditions which the Treasury propose are prohibitive?—I think, if the Treasury would be satisfied to have an Inspector of Sovereigns, if I may so put it, merely to pass the sovereign as satisfactory to the English Mint, without his interfering in any way except having the power of rejection, that that would strengthen the position of the Indian Mint, and I can see no objection to it. It would lead to friction if the individual selected was likely to produce friction, but I do not think it would do so otherwise. My experience of Indian officials, Anglo-Indian as well as Indian, is that they are very willing to have the assistance and advice of English experts from England. I do not think there would be any difficulty in that; whether it could be done from the practical standpoint, whether a man could pass sovereigns, I do not know; I should think he could pass a certain number. I should think the easier plan would be that which is adopted in the Ordnance Factories, and I had that in my mind at the time. When I was at the War Office it was the practice, and I have no doubt it is now, to watch the Ordnance in the course of manufacture. An expert from the War Office, for instance, is present when the steel ingots are tested; he does not interfere with the factory testing, but he watches it and tests also. That testing is laid down by the War Office, and the testing here could be laid down by our English Mint obviously. I see no difficulty in an official from the English Mint being present during the process of testing and assaying the gold and testing the sovereigns once made, without interfering with what I may call the administration of a department of which India is justly proud. I cannot see any objection to that myself, but then of course I have never been Master of the Mint.

11,432. I have been, but I am afraid my recollections of its duties are a little vague at the present time. What I have in my mind is that these are statutory obligations, that it is not a mere question in these matters of Treasury regulations, but it is a question how the Master of the Mint can fulfil the statutory obligations which are laid down?—I quite recognise the difficulty, and I only threw out the suggestion that it might possibly be overcome by the delegate, a representative of the Master of the Mint, being present at all the necessary tests, who would satisfy himself that these tests were in strict accord with the English standard. Unless there is a statutory objection to it, I do not see why something of the sort should not be done.

11,433. (*Lord Faber.*) Even if there a statutory objection to it, that could be altered by a short Act?—There you have the difficulty of short Acts, which very often take up more time in the House of Commons than longer ones. My experience is that an Act of three lines is a very difficult matter to carry, but you might find there would be little difficulty about it if you tacked it on to something at the end of a Session.

11,434. (*Chairman.*) I think at the present time the Master of the Mint must nominate the Deputy-Master for any other Mint that is established?—I suppose he could do that. It was the same sort of thing with me; I was the nominee of the Secretary of State at home, but I became an Indian official independent of the Secretary of State—but very subordinate, it is true.

11,435. Now I would like to turn to another subject. We have had before us on many occasions, I may say constantly, the demands made on behalf of the Indian authorities on the London Money Market for the purpose of Indian railway or other development?—You mean in the case of loans?

11,436. Yes. There has been a general consensus of opinion (I think I am correctly summarising the evidence) that you might well spend much more money on these development purposes, if it were available. There has also been a considerable body of opinion, at any rate, which has thought that the less you had

to have recourse to the London money market for those purposes the better. That brings me to a question I want to ask. It has been the custom for some time to raise a part of the capital you require by rupee loans in India. I want to ask you whether in the years that are now before us you think the Indian Government could safely count upon raising a larger sum in India in rupee loans that it has done in past years. India is developing very much in wealth, perhaps, and is also developing the spirit of investment; I take it that what has been done in the past is not necessarily a measure of what might be possible in the future; so I should like to know whether you think there will be a larger market in India for rupee loans than there has been?—I am a little afraid of travelling over too much ground and of unduly taking up the time of the Commission, but with your permission I should like to explain, as leading up to my answer, what my personal attitude in regard to that point has been.

11,437. Please do?—What I felt very much was that, having received an assurance in this room, or at any rate in a room in this office, that I should find a surplus of half a million when I arrived in India, five weeks after I landed in Calcutta I found myself faced with a deficit of 3 millions and, I think, three-quarters or thereabouts. That naturally made me very cautious.

11,438. I have great sympathy with you, as I succeeded under similar circumstances?—I therefore adopted what is usually termed a conservative policy of finance. One of the things which I endeavoured to do was to strengthen the credit in India of the Indian Government, and to keep as a reserve the borrowing power of the Government of India, and the lending capacity of the country. I was especially encouraged in that attitude, because, as time went on, I had large surpluses to deal with. It appeared to me to be unsound finance, and hardly an honest transaction to borrow money on a large scale, when I was in possession of large sums of money. It has been done, but I did not think it was right to do it. Accordingly, at one time, when there was a plethora of money, I had in my mind almost to suspend borrowing in India; but I think it is recognised that to do that sometimes has the effect of what you might call killing your market. Therefore, I endeavoured to keep a middle course, that is, to borrow sufficient to keep in touch with the lending market, but not to borrow more than I could really deal with. It was for those reasons that I kept my loans as low as I could. They averaged, I think, about $2\frac{1}{2}$ to 3 crores a year. I think it is very important, in a country like India, where one week of delay in the monsoon may produce a condition of affairs which will result in the greatest possible shortage of money, to keep your borrowing more or less as a reserve. At the same time, if you put to me the question, giving full consideration to the state of the market here and there and assuming a fairly good cycle of monsoons, I certainly would rather increase my rupee loans than my sterling loans. I think there is room for it in India, and I think India will give you more money if you want it. This expression of opinion on my part, without the previous explanation which I have endeavoured to give, might appear to clash with my conduct when I was responsible for the borrowings. I wish to sum up by saying that I wanted to keep as much as possible a virgin market, if I may so call it, in reserve, against calamities such as I had to face when I first went to India, and which will most certainly recur, and the huge prospective expenditure on education and sanitation. At the same time, if you have a continued advance in prosperity, some development of industries, and fair monsoons or good monsoons, then, I think, my tendency would be to borrow in India rather than to borrow in England, at any rate, to increase my Indian borrowings and decrease my sterling borrowings. It must be remembered that the condition at the present moment may be an abnormally prosperous one, and I think with anyone who has gone through the anxiety which I did in the first two years when I was in India, the tendency would be to create a conservative feeling in dealing with the reserves of strength. But I repeat that, given all the conditions which I have indicated, I would rather increase the borrowing in India and decrease the borrowing in England than otherwise.

11,439. I would like to say that any prefatory statement that you would like to make in answer to a question of mine, we should be very glad to have. I feel that one ex-Chancellor of the Exchequer does not want to cross-examine another on the details of all his administrative acts, but if you would like to supplement your answers to any of my questions by further statements which you think would be useful to us, please do so. I now want to turn to another question, which, I think, had not come to the front in a very practical form while you were Finance Minister, but which has occupied a good deal of our attention. We have been forced to consider, in connection with the subject matter of our inquiry, suggestions for a State or central bank; may I ask you in general terms, for, I think, that would be the best way, whether you would care to express any opinion on that subject to the Commission?—As you are aware, it was not my desire to offer evidence before this Commission, but the moment I heard that you would like me to do so—I gathered from Mr. Blackett's letter that it was the feeling of the Commission that I should—I naturally placed myself at your disposal, and any question which I have not dealt with very fully in India, and which you think right to put to me, I should consider it my duty to reply to, and if I can do so with any advantage, I should be very glad indeed. The question of a State bank never came up in India in a practical shape while I was there. Three subjects struck me. The first was the gold mint, the second was the universalisation of notes, and the third was a State bank. Very soon after I took office, I was greatly struck by the absence of a State bank in India. I call it a State bank because I do not know of a term that would better convey my meaning; I mean a Bank of England in India, so to speak. My desire was to bring about those three things, a gold coinage, the universalisation of notes, and a State bank, if I may so call it; but I do not want the word "State" to be taken as meaning too much; I mean a big central bank. I devoted a great deal of thought to it. I consulted a great many people on the subject, and I did all I could to come to a quite impartial and definite conclusion. The conclusion I came to, regretfully, was that it is quite impossible to establish such a bank. Further, I came to the conclusion that if you did establish anything approximating such a bank, you would merely create a fifth, sixth, seventh, eighth, ninth, or tenth wheel in the coach, according to the number of directors. You would increase friction, and you would render the position of the Finance Minister nearly untenable. I think, too, that you would probably find that you might embarrass the authorities at home and even your markets at home through the action of that bank. I was sorry to come to that conclusion, but that is the conclusion I did come to. I take it that the only thing in the way of a central bank of that character would be something in the nature of a standing committee of finance, because it is perfectly evident that you must have a representation from all the Presidency banks. As it takes the best part of 14 days to get to and from Madras, it would be very difficult for the head of the Presidency bank from Madras to attend once a fortnight or even once a month. The Calcutta man would be equally unable to come up; and the Bombay man would be equally unable to come up. I am assuming that Delhi would be the centre, because if not, you would let loose the most fearful internecine warfare between the three Presidencies, and you would never come to any conclusion at all as to which was the best place to establish your bank in. Bombay is certainly the financial hub of India, I think Calcutta may claim to be the commercial hub of India, and Madras is a placid and well-conducted Presidency which is not so aggressive as the other two. You could not satisfy the three by putting the bank in any one of those three places. Then it must be in touch with the Government and the Finance Departments, and so it would have to be at Delhi. The only thing I can suppose worth consideration would be to have a man detached from each

Presidency bank. I do not know whether that is in the minds of those who suggest this bank, but it seems to me that that is the sort of thing that might perhaps be brought about. You would then probably have three men who in a very short time would be entirely out of touch with, I will not say the actual cash position, because that they can be in touch with it telegraphically, but with the inner financial position which in each Presidency varies tremendously, and you would gradually find that they would fossilise up at Delhi, which is quite out of touch with business. The same would apply to your Government representatives. You would put on probably two men, who had been secretaries, in the Finance Department, or something of that sort. They would soon lose touch with the work in the Finance Department, they would sit round a table and after a certain amount of discussion would evolve certain proposals, and those would go to the Finance Department, who would in the nature of things, probably criticise them; and that would lead to friction and difficulty. I do not see what advantage you could get out of it. That institution would be entirely out of touch with London and entirely out of touch with London markets, and I think that you would have nothing comparable in India to the English situation where you have the Bank of England. Even in regard to that, your Bank of England does not operate in Scotland, it does not operate in Ireland, and I think it hardly operates in the provinces. Your whole machinery here is really a machinery which enables you to get the best opinion in the city of London, or what is held to be the best opinion in the city of London, together, to guide the destinies of the finance of London and to lend money to the Government when the Government want money. That is practically what it is, is it not? I do not see that this Indian bank, constituted as I think it would have to be constituted, would be otherwise than a fifth wheel in the coach. Having said that much, I should like to add, as part of my answer, that I think the present system must be changed, and that rather than continue the present system of a Finance Committee in the India Office, I would accept a bank or anything else; but I do not think your bank could be a workable institution, and I think it would lead to friction and difficulty, and I do not believe it would last. For that reason I have with great reluctance given up the idea of a central bank in India. It must be remembered that India is an enormous country. It is a country the size of Europe less Russia, and really to have a bank which operates at the same time in Portugal and Norway, is rather more, I think, than we would contemplate in this country or in Europe anywhere. I think that what is wanted is a complete change in the relations between the Finance Department in India and the finance branch of the India Office. I do think such change is essential, but I do not think that the advantages of the Indian state bank would be at all commensurate with the disadvantages.

11,440. Your answer to my question is very complete, but it has raised other very important questions; one is the connection between the Finance Department in India and the Finance Department in the India Office, and the other, which was only mentioned incidentally by you but which I should like to deal with first, is the question of the universalisation of the notes. What is your view on that latter question?—When I went to India I was handed a bundle of notes by Messrs Grindlay, and I went as an honest man to pay my debts with them Wherever I went they were rejected. They said, "Yes, these are Government notes, but they do not belong to this circle." I lost my temper, and I thought it would be advisable to take up this matter seriously and at once. I found that these notes did only operate in certain "circles" as they were called; and it appeared to me that that was the best way that human ingenuity could conceive to stop the note circulation in India. In India you will never work on the cheque system, and the only alternative was then, and is now to a great extent, bags of rupees. They are inconvenient, and, of course—I speak here subject to correction—a bullion transaction is more wasteful than a paper transaction. I devoted I will not say all my energies, but some to universalising notes. I have received the greatest possible assistance from the Civil Servants of India, and I could not have existed for five minutes in India without that assistance. Their loyalty is proverbial, but they are extraordinarily obstinate, and nothing on earth would induce them to contemplate the possibility of universalising any notes over 5 rupees. After the most fearful struggles I succeeded in carrying Anglo-Indian opinion with me. I was led to suggest the universalisation of somewhat larger notes. I was met by passive resistance in the India Office, and Mr. Abrahams communicated to me the opinion that he thought there was a grave danger in going beyond 10 rupees. However, after a great deal of trouble, and, I think, two solid years' experimenting with the result of a 10-rupee note, I was allowed to go somewhat higher. My own feeling is that you ought to go certainly up to 500 rupees; I would have denominations of 100, 200, 300, 400, and 500-rupee notes; and I foresee the time when it would be very advisable to go higher. The notes are being very well received, so well received that representations were made to me privately from various places in India that my accounting officers would not issue notes, that the people wanted them and could not get them. I found this was the case in certain instances, and the reason was not far to seek. It gives less trouble to hand out a bag which has been weighed and tied up containing 1,000 rupees or 100 rupees than to take out a note, enter the number in a book, and pass it through the various proceedings which a note entails on the cashier. I think—I hope Mr. Gillan will forgive me for saying so—that what was behind a great deal of this opposition to universalising the note, was the extreme comfort and convenience of having all the rupees bottled up in large sealed boxes in the vaults of Fort William, instead of having them peppered about the country to meet the possible demand on the notes. However, it has been done, and I think this universalisation of the notes would really save the situation in India if it were well carried out. I am in a position to state that it really is liked by Indians now. I have asked even the working Indians, and they say, "Yes, we like it, because we can herringbone"—I think that is the ladies' term for the stitching—"these notes into our "loincloth or into our turban, and then we never leave "them." The practice of the little people there is to put their rupees in an earthen pot and either dig a little hole under their bed and sleep on it, or hide it in the thatch of their cottages or their huts. The result is inevitable. Their little earthen pot is eventually stolen from under the bed, or it is burnt when the hut catches fire, which usually takes place once a year, and perhaps oftener. They do feel that the notes are secure. They have them on them when they go to their work; they have them when they travel; and I have myself seen the natives when they arrive at a station, undoing their waistcloth and pulling out the notes. I think as time grows they will freely and gladly take notes. In Burma I received the information that they could not get as many as they wanted, and I went there myself to see about it.

11,441. I may take it then that you yourself are in favour of increasing the note circulation as much as possible in India?—Yes, I am strongly in favour of that.

11,442. I think the universalisation has been carried out under your auspices up to the 100-rupee note?—Yes.

11,443. Would you like to carry it further?—I think you could quite safely carry it up to the 500-rupee note.

11,444. The objection which has been put to us to the universalising of the larger denominations is the fear that Government would be put to great inconvenience in encashing notes?—That is an argument which was brought to bear, precisely the same argument, with some acerbity even, with regard to the lesser notes. Of course I would not at present recommend the universalisation of 1,000-rupee notes. It is very important to accustom your public gradually to what you are doing, and not to spring anything on them. I say there is no more difficulty in meeting the 200-rupee

note than the 100-rupee note, and in point of fact in India you generally find that if a man wants rupees for a 100-rupee note or 200-rupee note, if he cannot get them on Monday he is perfectly satisfied to come for them on Tuesday. I do not think any difficulty would arise, and if it did, it would only arise as a political combination. One of the reasons why I was rather anxious to do anything which tended to increase the gold circulation, was because, if they could have the experience which proved to them that by tendering a note, if there were any doubt about it, they could get the sovereigns, which is of course the summit of stability and which it is their ambition to hold, I think that would strengthen the notes very much more even than giving rupees.

11,445. You do not suggest that the Government should be under any obligation to pay its debts in gold?—No.

11,446. You would merely suggest that it should give the gold if it is convenient to do so?—If there happened to be gold in the Treasury. I think you might tell the cashiers that if a man wanted to encash notes it was wise to give him what he asked for, if possible. I should be inclined to say this much to him. where I had a reasonable man to deal with: If you find a man has any doubt about his note, talk to him reasonably and tell him it is perfectly sound—never do more than that, but give him gold if he wants it. I never would force any currency, and I would only issue gold when opportunity offered to show what a very sound thing the paper was. One danger of the notes, the only one, is forgery. In regard to that it may interest the Commission to know that the most perfect forgery I have ever seen was a Japanese pocket-handkerchief. It had a very light margin which was specially woven, so that it tore off with great ease, and the centre of the pocket-hankerchief was an absolute facsimile of the 10-rupee note. I am old enough to remember when metal coinage in Italy was non-existent, when there were 1-franc notes, 50-centime notes and 25-centime notes; I am speaking now of 45 years ago. What happened was that the place was flooded with forgeries. That was a matter of police detection and it did not injure the popularity of the notes. I remember going back to Italy and I could not get them to take a 20-franc gold piece; they preferred the notes. They were quite satisfied with their notes. I personally am not quite satisfied with our note; I think it might be improved. It is a class of note that rather lends itself to forgery. I think the first thing to do would be to make it a better note and a less-easily forged note. (*Showing note.*)

(*Lord Faber.*) You want something better than this?—Yes, you want it more on the lines of the American notes and the French notes. We are not allowed to make our own notes in India, and that is the best effort which could be made at home.

11,447. (*Chairman.*) Now I would like you to turn to an even more important subject, which arises out of your previous answer. I think you stated that you were convinced that it was necessary that there should be a change—a complete change, I think you said—in the relations between the Finance Department in India and the Finance Committee of the India Office?—Yes. I should go further and say that it is part and parcel of the relations between the various Departments in India, and the Secretary of State's Council at home.

11,448. May I interject on that point that, as of course you will realise, this Committee is appointed to investigate certain financial questions or currency questions, and we do not desire, as we are not entitled, to go outside our reference. Anything that you feel necessary to say to make your position in regard to the financial question, plain to us we should be glad to hear, but it is with finance that we are concerned?—Perhaps you will be so very kind as to stop me if I go beyond that line; I might unintentionally do so. I should like to preface my remarks by saying that anything which I place before the Commission—and I say so, emphatically—must not be taken as evidence of any desire on my part to reflect in any way whatever on any individual person. I am dealing with the situation and not with individuals in any way. I presume that it is the wish of the Commission that I should treat them with absolute frankness?

11,449. Please?—If I do that, it is possible that I may give some offence in some quarters, and I should like to say that nothing is further from my desire, and that nothing will cause me greater sorrow than that such a situation should arise. I must point out. dealing strictly with the position of the Finance Minister in India, and his relations with the India Office, that under the present arrangement his position is not only a very difficult one, but it is an unnecessarily and an unduly difficult one, inasmuch as he is practically debarred from communication with anybody in the India Office who can really keep in touch with what I should call, for want of a better term, the mind of the Secretary of State and his advisers in regard to finance. Before I went out to India I had the honour of presenting my respects to the then permanent Under-Secretary. I asked him whether it would be in accord with practice and precedent, and would meet with approval, if I wrote to him when in doubt or in difficulty. I need hardly say that he received me in the kindest manner, but I gained the impression that it was not considered advisable, and "that you had better not adopt the practice." When he retired, Sir Richmond Ritchie succeeded him. Sir Richmond Ritchie was an old friend of mine, and we had run neck and neck in the service almost. I wrote to him from India—I had then been in India a little time—and I represented to him my great difficulty, that being that I was very often working in the dark. I could consult my colleagues, and so long as I had the confidence of the Viceroy, who, after all, is everything in India, I had very little difficulty there. I am very glad to have this opportunity of bearing testimony to the great kindness, the support, and the free hand which was accorded to me in India by my Indian colleagues and by the two Viceroys under whom I served, in matters of finance. But I was always in doubt as to whether I was working on sound ground from the English standpoint. I had served abroad in other conditions. I was in South Africa, and I was in Egypt. On each occasion it was permissible for me to communicate freely with home, and I remember very well the kindness with which Mr. Chamberlain, your father, treated me on one of those occasions. I fully recognise that there can be no question of a member of the Council communicating with the Secretary of State, because it would very obviously place the Viceroy in a somewhat difficult position if his members of Council corresponded direct. What I did feel was that if I could correspond with the Permanent Under-Secretary of State, who, in every Department of the State except the India Office, is the philosopher, guide, and friend of everyone connected with the work of that Department, I should be materially helped. Accordingly I wrote to Sir Richmond Ritchie and asked him whether he would allow me to write to him. I explained to him that I should not dream of taking up his time with trivialities or frequently, but if I was in difficulty, such as for instance, on a question of increased taxation or any of the larger issues, I thought it would help me very much if I could be allowed to write to him so that he might tell me, to use a colloquialism, how the land lay here. In India everything gets out, and if you have a proposal it has gone a good way ahead in public knowledge before probably you have got your answer from England; and therefore it is very advisable to know how you stand. I got a perfectly courteous letter from my old friend in which he said he would prefer I should not do so, because it was not in accord with India Office custom. The only way in which I could communicate with the India Office and the Finance Committee was by means of what we call the semi-official or demi-official weekly communications between the Government Secretary for Finance and the Financial Secretary here. I had the good fortune to have two Secretaries to Government who were not only men of conspicuous ability but were the very soul of loyalty. I do not think they wrote without letting me know what they wrote, I do not think they ever received answers without letting me know them, but

they need not have done it, and I know of cases where it is not done. Under those conditions, the unfortunate Finance Minister, and for that matter the Head of any other Department in India is absolutely isolated as regards knowledge of what would be approved or disapproved until he gets an official communication. I think that is on the face of it a very unfortunate state of affairs to exisit. What you want is the closest sympathy, the closest intercommunication, and the fullest interchange of views, before you formulate them in an official form; and I think that something must be done to produce that. I do not think it would have been possible for some of the little incidents which have occurred to have occurred if I had had an *alter ego* here that I could correspond with. I contend that the right way to work it is for a member of the Secretary of State's Council to be the Finance Member of the Secretary of State's Council, and although he could not pledge his Council or his Secretary any more than the Finance Minister could pledge his colleagues and his Viceroy, still that intercommunication between them would of immense value and assistance, I think, to the Government there and to the Government here as well. I think it is on those lines that you must make your change rather than having a State bank. You will not want your State bank then because you will be in close touch with the whole situation. I constantly wanted to know what the condition of the market was here in regard to Indian securities. You will not get the same thoroughly confidential answer in an official communication; it is a laboured process and it takes a long time. If you can write fully before you frame your budget to your *alter ego* here and say, These are my ideas, these are the lines I am inclined to go on; you will produce a very much better result. As it is, the unfortunate Finance Minister—it occurred to me on two occasions—within three weeks may have to alter his budget from top to bottom; and even then you do not know whether you are in accord with what I may call the inner mind, the inner consciousness of the India Office, and of the people at home. There are a hundred things to be considered, there is the condition of the Treasury, the attitude of the Chancellor of the Exchequer in regard to loans, and so forth, and doubt in regard to everything. If you had on the Council of the Secretary of State a Finance Member and he could be the analogy, so to speak, of the Indian Finance Member, I think you would at once get a thoroughly satisfactory intercommunication between them and produce a very much better result. There would be no question of either of them being able to pledge their Councils. It is a matter of information and of being in touch, and the assistance to the man out in India who is always very isolated would be enormous.

11,450. Do I understand that the Finance Minister in India can have no informal communication with the India Office at the present time?—I certainly received the strongest intimation to that effect; I had it in writing and I have got the letter. It was a very brief letter and very courteous, but it was only about six lines and it said that he thought the practice would be inconvenient, and he would rather I did not, except in conditions of very extreme urgency or something like that.

11,451. So, at the present time there is no recognised semi-official machinery of communication?—The only recognised channel is what is usually a weekly letter which passes between the Secretary out there and the Secretary here. As a rule these letters deal with matters of detail rather than with big questions of principle, and you might have a condition of affairs in which your Finance Minister might not agree with his Secretary; in which case he might want to know which view was taken at home and thereby avoid an *impasse* in India.

11,452. Could you tell me shortly—I was very unfamiliar with these matters until I came to sit on this Commission—what is the position of the Secretary of the Finance Department in India?—He is all-powerful in the Finance Department.

11,453. Is he independent of the Finance Minister?—No, he is not independent; but he knows so much that his position is very strong. He has certainly a weekly access to the Viceroy and conducts the business of the Department directly with the Viceroy; whereas the Minister only sees the Viceroy either when the Viceroy sends for him or when he himself formally asks for an interview. The whole of the financial transactions are carried out by the Secretary with the Viceroy aside of the Minister. I should add, that the Secretary is Secretary to Government, and not only Secretary to the Finance Department.

11,454. Is his title "Secretary to Government"?—Secretary to Government for the Finance Department, or Secretary to Government for the Commerce and Industry Department, as the case may be. I think it is a remains of the time when the members of the Government of India were not in charge of a Department, when they were a consultative body. After that they were given their Departments and became heads of their Departments. The situation there now is very much what yours would have been had the Secretary of the Treasury dealt directly with the King and behind you on matters concerning your budget. Of course I do not imply the slightest reflection on the individual, because, as I have already said mine, I am happy to think, were part and parcel of myself. I think Mr. Gillan will bear me out in that; I do not think either he or Sir James Meston have had a difference of opinion with me.

11,455. That I quite understand. What is of course important for us to know is, what are the permanent effects of the system?—If you will pardon me, I should not call it necessarily even a defect. I should accept that side of it if only you gave the unfortunate Minister somebody to communicate with here, so that they might know how he stands, and he might be able to represent fully his own personal views at home, which he is now debarred from doing.

11,456. My word was "effects," not "defects"; however, the answer can stand?—I misunderstood you; I am very sorry.

11,457. I suppose I am right in thinking that the amount of Indian criticism, meaning by that criticism originating in India?—Not native only?

11,458. Whether native or Anglo-Indian, criticism of all kinds originating in India which is brought to bear on the actions of Government Departments, the Finance Department amongst others, has grown, and tends to grow?—It has grown enormously. On that point I should like, with your permission, to say one word. One of the great difficulties that I had to contend with in India was the failure, or partial failure, in this country to realise what an extraordinary change has taken place during the time when I was in India. I delivered my first budget statement to the old Council, and I have in a speech which I do not suppose anybody here has seen, described what took place. There were very few people; they were all nobles or Zemindars of very high degree, and they were all fast asleep from beginning to end. It was a very hot day, and so hopeless was the situation that I fell asleep myself while I was making my own financial statement. All of a sudden there burst upon India a really representative body which expressed the opinions of educated Indians. It came as a great shock to a great many people, and I do not think I could possibly have coped with it—I daresay I did not cope with it happily—at any rate I struggled there with it—had it not been that as a private secretary I had had to sit under the gallery of the House of Commons for year after year during the debates. It was really a small House of Commons, composed of men with brilliant intellects and men who were extraordinarily hard working. The mind of an Indian will assimilate knowledge rapidly, their receptive capacity is good, and it is really a very serious matter to cross swords with them in debate. It must be recognised that educated Indian opinion is an opinion which must be viewed with the greatest possible respect and regard. It is a very important item in the administration of India now; though it used not to be. Its criticisms of financial transactions are of the gravest and the soundest character very often; and it will become daily more important for a Finance Minister to be perfectly sure of his ground in dealing with them.

I have a case in my mind at the present moment where I was made to give an undertaking two years running which was not fulfilled at home. I do not wish to dwell upon it, but there it was. That is of course a source of embarrassment, not only to the Finance Member, but to the whole Government; and it is apt to create a two-fold impression on the Indian mind, the first that they are not being frankly dealt with, which is disastrous from a political standpoint, and the other that the member is not accorded much consideration by those over him, which is also a bad thing.

11,459. From the evidence we have had before us I have gathered that, whilst of course the Secretary of State in Council is in the last resort the supreme authority under His Majesty for the Government of India, there was a certain recognised division of labour in matters of finance between the authorities in India and the authorities in London. Take a matter like the raising of loans in London, which, after correspondence between the Indian Government and the Secretary of State in Council, is decided here and remains for action on this side; I suppose that in the Imperial Legislative Council the Finance Minister may be asked the question why a particular loan was issued at a particular moment?—Certainly. I may refer you to the questions put by Mr. Armstrong, who represented Bombay in the Council, on 12 March 1912, in regard to the non-clearing off of debt in England.

11,460. Such cases must recur. In a case like that what is the position of the Finance Minister in India?—I think the position of the Finance Minister in India is a perfectly sound one having regard to the difference of authority. The placing of loans in England, for instance, is entirely a matter for the Secretary of State in Council and his advisers. My attitude would have been to say, I cannot answer your question because it has nothing to do with me. The Finance Minister accepts his appointment under the distinct division of responsibility and of power. I do not think that I should have gone beyond that answer; in fact, so closely did I adhere to that line that when I was pressed by Mr. Armstrong in regard to the question which I alluded to, I telegraphed home. I said I cannot answer you. I telegraphed home and asked the home authorities here to telegraph out textually what answer I was to give, and the answers I gave I told them were the answers from the India Office and not from me.

11,461. In respect to such matters as that, I can conceive that the responsibility must remain with the Secretary of State, clearly?—I think certainly.

11,462. Do you think that the Finance Minister, in regard to the discharge of the duties of his office, either in the office itself or in the Imperial Legislative Council, is hampered by lack of knowledge of the reasons which actuate the Secretary of State in any particular decision?—I think I would like you to indicate what sort of decision, because it is a good deal affected by that.

11,463. I take the particular case I took before: a loan is raised at a particular moment and at a particular rate in England; some question is raised in the Imperial Legislative Council as to whether it was necessary to raise the loan, whether the moment was propitious for raising it, or whether the rate was the best that could be obtained. Is it sufficient under present circumstances, as far as your experience goes, that the Finance Minister should say, That is a matter which is left wholly to London, I have no knowledge of it; or must he, as you did in the particular case you have mentioned, obtain knowledge to enable him to answer the question?—If a general attack were made on the policy of the loan and so forth, then, I think, the proper attitude of the Finance Minister, the correct attitude, and I think the useful one, would be to say, It does not come within my province, and I can only say that it was done by the Secretary of State in Council and is outside discussion in this Chamber. Where a member representing, as Mr. Armstrong did, for instance, Bombay, a most important community, puts down on the notice paper specific questions, then I think he is entitled to have them answered, unless you say for reasons of State you cannot answer them. It is exactly the same thing as in the House of Commons. I think the proper course to adopt is the one which I adopted, which is to say, "This is not my business; "will you kindly tell me what you wish me to ask, and "I shall refer the questions to the Secretary of State." I do not think that is embarrassing.

11,464. Therefore, when you said that your great difficulty was that you were very often working in the dark, that did not refer to any answers that you might give in the Imperial Legislative Chamber to questions asked about the action of the Secretary of State?—Not at all; I wish to make that very clear. What I referred to was rather with regard to my own work and my proposals in the future; also whether my action in the past had met with approval, and so forth; in fact, that class of inter-communication which is generally described as keeping touch with your department. It had nothing whatever to do with the attitude in the Chamber, because the proper course there would be for the minister to represent his difficulty to the Viceroy, and he would communicate direct with the Secretary of State.

11,465. Now I want to turn to two wholly different subjects which have occupied a part of our attention, and of which I have been reminded while I have been examining you by colleagues on the Commission. It has been made quite clear, I think, to all of us, that whilst budgetting, that is, forecasting revenue and expenditure, in any country is a difficult task, there are circumstances connected with the monsoons every year which make it an extraordinarily difficult task for the Finance Minister and his department in India. The suggestion has been made to us that that task would be certainly made less difficult if the date of the financial year was altered. The date which has been most often suggested, I think, has been that you should take the 1st of October as the beginning of the financial year. It has been suggested that in that case sufficient information as to what I think I may call the major monsoon would be available to give the Indian Government at any rate a much greater basis of fact for their estimate than they have at the present time. I should be glad if you would tell me whether you think that suggestion useful?—I think it would be very advisable to alter the date. I think that the financial year *quâ* India is the most inconvenient you could have. It really is hardly an exaggeration to say that it doubles the difficulties of budgetting in India. I do not know, and I am not in a position to say, how far it would be possible, in connection with the financial arrangements of the India Office at home, to make a change. If, however, it can be done, I strongly advocate a change, but I would not make a change to October; I should greatly prefer to have it from January to December of the calendar year. I think that is more reasonable, and it would be easily understood in India. Any change has a very unsettling effect on public opinion there, and, I think, it would be difficult to explain a change to October. In point of fact, January gives you a better date. You could begin seeing your budget, so to speak, in October if you had your ending in December, and so you would get your advantage without fixing an awkward date. I strongly advocate, subject to any objections which may exist in England, with which I am not acquainted, changing the financial year, which is from April to March, to from January to December.

11,466. I come now to the last subject on which I want to ask you a question. A good deal of the discussion before us has turned upon the sale of Council Bills, as it is generally expressed, in excess of the requirements of the Secretary of State. I think I must add that that is a loose expression which, as used by at any rate the more thoughtful of our witnesses, is not intended to convey that money is brought over here which has subsequently to be returned to India, but that money is brought over here in advance of the time at which it is required here. Would you care to express from the Indian point of view any opinion either in favour of the continuation of the present practice, or against it?—The only thing I should like to say in regard to councils is that I think it would be

well to keep the sale of councils within reasonable limits, but I do not think you can tie them down to a fixed figure. After all, the India Office has its difficulties to contend with, and there is no doubt that this Council system is very popular in Calcutta. I think it is popular because we are doing work for nothing which is extremely convenient to the mercantile community. As long as you have the process, I do not think I should like to lay down any hard-and-fast rule. I do not like the Secretary of State selling Councils, when there is a slump in exchange, more than he can help. I think that is certainly a mistake. I should like to see the sale of all councils in excess of the Secretary of State's actual requirements kept within very moderate limits; beyond that I do not think I should feel competent to express an opinion.

11,467. (*Mr. Keynes.*) You suggested that if more informal communication could be maintained between the Finance Minister and the India Office, the proper person in the India Office to whom the communications should be addressed is the member of council who is particularly concerned with financial matters; would that be satisfactory to you?—There is no such person that I am aware of at present.

11,468. The member of Council who is chiefly concerned with financial matters, that is to say, the chairman of the Finance Committee under the present system, or the member attached to the Finance Department under the proposed scheme, is the person you suggested, is he not?—I did not mean to put it that way, and I do not know that I did. What I wished to indicate was that if you could have a member of the Secretary of State's Council in as nearly as possible the same position as the Finance Member of Council in India, and you could allow the one to communicate with the other, then I think you would not require a Finance Committee, and you would not want a State bank, and I think things would proceed satisfactorily, because the one would be a check on and a help to the other; at any rate it would be a great help to the Finance Member.

11,469. If one is merely considering the point you put, that the Finance Member in India does not now know quite how he stands, would it not be satisfactory if that right of informal communication was granted with the Permanent Under Secretary of State or the Permanent Assistant Under Secretary?—I do not think it would be quite so useful. I can only speak of the Permanent Under Secretary from the standpoint of my experience of Permanent Under Secretaries in other departments. The Permanent Under Secretary, properly speaking, is the narrow neck of the bottle, through which everything goes up to the Secretary of State, and I think that he would have neither the time nor the inclination to enter into financial disquisitions and correspondence on finance with the Finance Member in India, and I think he would in many cases have to refer to what I should like to see, the Finance Member of the Secretary of State's Council, before he could give an answer. I do not think it is quite the work for a Permanent Under Secretary. I asked the Permanent Under Secretary for the simple reason that I knew of no one else to ask; but I think it would be more satisfactory if the Finance Minister could correspond with the Member of Council who was at the head of the Finance Department here, and was as nearly as possible the analogy of the Finance Member in India. I do not think you could expect the Permanent Under Secretary, if you had that state of affairs, to embark on such a correspondence, because he would have to do it with everybody.

11,470. Of course that would presume a rather radical alteration of the organisation of the India Office?—It would.

11,471. With any sort of organisation resembling the present, what would you suggest?—I think I have suggested all that I properly can in view of the guiding remarks of the Chairman, who desired me not to travel outside finance.

11,472. (*Chairman.*) We here are concerned, of course, with the financial organisation of the India Office?—I do not think I can give an answer without extending my answer in regard to the rest of the Council, because it is obvious that a Permanent Under Secretary could not embark in correspondence with all the members of Council on all their subjects.

11,473. (*Sir Shapurji Broacha.*) Suppose the Commissioners of the English Mint were to remove their objections and make easy the coining of the sovereign, with a distinctive mark such as the Australian sovereign has; would that suit your purpose?—I have endeavoured to indicate that it would.

11,474. (*Lord Kilbracken.*) You referred to a suggestion which you made twice over of correspondence between the Finance Member of Council and the Under Secretary of State on matters of financial policy. You said on each of those occasions the proposal was discouraged or declined; but I suppose you do not think that those answers were given by the Under Secretaries of State on their own proper motion?—I do not think it is proper for me to form an opinion; I cannot tell.

11,475. I suggest that it is perfectly competent for you to form an opinion of what is likely?—Then I say, to assume the opposite would be obviously to assume that the Under Secretaries of State gave me an answer off-hand, which I do not wish for one moment to assume.

11,476. If that is perfectly understood, I am satisfied. I asked the question, because, although you mentioned the Under Secretary and the Finance Committee and the Council of India, you hardly referred to the Secretary of State; but I presume the Secretary of State would have something to say on the subject?—I never contemplated the possibility of corresponding with the Secretary of State.

11,477. But he would have something to say about the question whether it was advisable for the Finance Member of Council to correspond with the Permanent Under Secretary upon matters of financial policy?—That is a matter of the internal economy of the India Office. I really do not know, but I presume that everything in the India Office, as it is in all other departments, is subject to the approval of the Secretary of State.

11,478. What I noticed was that the effect which might be produced by the establishment of a correspondence of that kind upon the relations between the Secretary of State and the Viceroy in India was hardly present to your mind at the moment?—It was fully present to my mind, if you will allow me to say so, and I think I rather indicated it. At any rate, I repeat what I said, that such correspondence could be only demi-official, and that any opinion expressed or letters sent by the Member here could not possibly be binding on his Council or the Secretary of State, any more than any letters from the Finance Member in India would be binding on the Viceroy and his Council. All I ask is that there should be that inter-communication between the two members and the two councils which now exists between the two secretaries.

11,479. Between the two secretaries?—Yes, between the Secretary to Government in India and your Secretary here. I was debarred from doing what my Secretary was empowered to do.

11,480. Of course you are aware that the Secretary of State and the Viceroy correspond very fully every week and are constantly exchanging telegrams?—I am also aware that the Viceroy, having the whole burden of the Government of India on his shoulders, and having very lengthy and weekly correspondence and daily telegraphic inter-communication with the Secretary of State, could not possibly be expected to waste his time or devote his work to ascertaining for me, in a way which I should be empowered to ascertain for myself informally, what I had better do in my own Department. It would be most unreasonable to ask him to do it, though I had to ask him to do it on more than one occasion.

11,481. I hope you understand that I am not expressing any opinion as to the advisability or inadvisability of the proposal which you made. I am simply calling attention to the fact that the Secretary of State might have, and undoubtedly would have, an opinion of his own on the subject as to whether the

thought it advisable to have this correspondence going on in addition to his own?—It is obvious that it could only be done with the approval of the highest authority, and that is the Secretary of State. I assume in any remark I make that the Secretary of State represents the Cabinet; the Cabinet under the Constitution governs us all, and you cannot go outside that.

11,482. (*Chairman.*) I want to be quite certain that I appreciate exactly your view on this question. You, of course, had served for a great number of years in the British Service before you went to India?—Yes, 44.

11,483. You are familiar—more familiar even than I am, though I have had some experience—with the working of our system here. Shall I rightly interpret your views if I put it this way: that you want the Finance Minister to be able to communicate unofficially, to sound the ground?—Demi-officially I think is the usual term in India.

11,484. Demi-officially, then, to sound the ground, or to gather information?—And to receive guidance.

11,485. Subject always to the supreme authority of the Viceroy in his own case?—Certainly.

11,486. And the Secretary of State in the case of his correspondent; in the same kind of way that the Permanent Under Secretary of the War Office or the Admiralty will write to the Permanent Secretary at the Treasury and inquire, how would such and such a proposal be viewed if his office were to make it?—You have quite correctly interpreted my views.

11,487. The difficulty which you felt in the position of Finance Minister in India was that you could not unofficially sound the ground before making a formal proposal?—I think that what the Finance Minister in India wants is an *alter ego* in London. Then you could get interchangeability of views and mutual assistance and co-operation, which would result in benefit at both ends.

11,488. One further question on that. You spoke of the Permanent Under Secretary as the person that you had sought permission to correspond with on these matters; do you think that the Permanent Under Secretary is, so to speak, the opposite number of the Finance Minister?—No, certainly not. There is nobody here that I know of who is the *alter ego* of the Finance Minister. But that is what I want; I want an *alter ego* here, and I want an *alter ego* here for every member of the Council in India.

11,489. Would you like to see a Member for Finance on the Council here?—Yes, and let him be personally responsible for the finance here in regard to India, and then you would know whom to hang if it went wrong, just as you could hang me if it went wrong in India.

11,490. That is the member you would like in future to correspond with?—That is the man with whom the interchange of views and the close relation should exist.

11,491. (*Lord Kilbracken.*) Do I understand you would like the Member of Council to be responsible for finance in this country?—Instead of the Finance Committee, I would; that is, such responsibility as attaches to the Finance Committee I would attach to the Finance Member of Council in England.

11,492. Responsible to whom?—Obviously to the Secretary of State. Everybody is responsible to the Secretary of State.

11,493. When you spoke of hanging him I thought you meant responsibility to the public?—I take it that it would be responsibility to the Secretary of State. I do not say that it has occurred at the India Office, but I have known cases of a Secretary of State seeking whom to hang, and not finding the proper person to hang.

The witness withdrew.

MR. LIONEL ABRAHAMS, C.B., recalled and further examined.

11,494. (*Chairman.*) You first appeared before the Commission at its opening sitting for hearing evidence, and you gave us, partly in evidence and partly in memoranda, a great deal of very valuable information which has been of great service to the Commission in its subsequent sittings. In asking you to come again to-day I do not, of course, propose to travel over all the ground that we travelled over in those early days; but there are one or two subjects on which I should like to ask for further explanations from you. I think you then expressed an opinion that it was inadvisable that any attempt should be made to purchase silver regularly for the purposes of coinage?—Yes.

11,495. Since you made that statement I think you have had an opportunity of seeing such of our evidence as we have already published?—Yes; but I ought to add that my ordinary duties have been so heavy that I cannot say I have read all the evidence. I should have done so if I possibly could have managed it, but the work has been such as to make it impossible.

11,496. I can quite understand that. I would only like to ask you whether you still adhere to that opinion, or whether you would be disposed to say that, on a moderate scale, regular purchases of silver might help to avert some of the difficulties which the spasmodic purchases create, without creating any greater difficulties in their turn?—I hold to the opinion which I originally expressed. My reasons are these. In the first place, it is not merely uncertain how much we shall want in any year—it is uncertain whether we shall want any; and indeed it is uncertain whether we may not have a great flow of silver back from circulation into the Government Reserves. If we had, say, a million or two in hand in view of possible requirements and then found that, as happened in one year to which I drew the Commission's attention, 12 millions or so came back from circulation, it would be to some extent a calamity, even if, at the time, we were strong financially. But, in the circumstances supposed, we should at the time be weak financially. The back-flow of rupees from general circulation comes, if at all, when the sterling resources are either not very strong, or when, even if they are strong, the demands upon them are likely to be exceedingly heavy. At a time like that, if we had locked up any appreciable amount by buying silver in advance up to, say, two millions, which is a very moderate amount, I do not say that the consequences would be exceedingly serious, but they might be embarrassing at a time when we wanted every sovereign of our sterling resources in order to support exchange. Might I add this? The difficulties of buying silver as it is required can easily be exaggerated by anyone who has mainly in his mind the very peculiar circumstances of 1912. I do not think anyone would deny that there was then a speculation for the rise of silver carried out by very determined people and on a very large scale. I cannot say that such speculations are not going to occur in the future, but I gather, from the little that I have been able to observe, that the experience of the speculative group—I do not use that term in a disparaging sense—has probably not been so satisfactory to them as to encourage them to repeat in future what they did in 1912 and the preceding years. If there was no speculative holding I think that with a certain amount of care we could buy our silver without creating any disturbance that is appreciable enough to be deterrent to us or to any other existing concern.

11,497. We had from the Chairman of the Finance Committee in the evidence which he gave to us that there was, in his opinion, no objection to making purchases of silver in Bombay if other circumstances seemed to render that desirable; do you quite agree in that view?—Yes.

11,498. You do not consider the India Office bound to make the purchases in London if it can make them any better or on equally advantageous terms elsewhere?—I agree with that view. There would be a little more brokerage to be paid; and owing to the comparative smallness of the stocks usually held in

Bombay, I think it would be less easy than in London to purchase secretly, if secrecy were desired; but, subject to that, I see no objection to buying in India.

11,499. Do you hold that view in spite of the fact alleged by one witness who has been before us, that the dealers in Bombay are so much more numerous than the dealers in London, that anything in the nature of a ring is much more difficult to be made there?—So far as that statement is correct, about which I do not know, that would be rather an extra reason for buying in Bombay. If I understood you correctly, the effect would be that Bombay has rather a freer market, a market less likely to be cornered.

11,500. That was the suggestion of a witness that whereas there were, I think, only four firms of brokers in London, there was a very considerable number of dealers of different kinds in Bombay, and they could not form, in his opinion, the kind of combination which was possible amongst so limited a number as four firms?—I very much doubt the correctness of his facts, for various reasons; but if his facts are correct, that is a reason for, not against, buying in Bombay. I should like to add, in justice to the firms in London with whom we have certain relations, and, as a rule, friendly relations, that I do not think that they do form anything in the way of a ring. I think that, as is happily the case in most financial business in London, they do their business in a very high-minded, honourable manner, and that if a principal employs a London firm of silver brokers, they would never act against the interests of the principal for whom they were at the time doing business.

11,501. (*Mr. Gillan.*) I think in the past silver has as a matter of fact, been purchased in India?—Yes. That passed through my mind and I ought to have mentioned it, but I was anxious not to extend my answer. I think occasionally we have bought from the native States. I think at one time we made a purchase from Gwalior; I am not sure whether it was bar silver or rupees that we got.

11,502. That was one particular case, and I think silver was purchased on other occasions too. I do not know whether you could tell us how the purchases were distributed on those occasions between Home and India?—If you remember the correspondence that we put in, which was printed in one of the Appendices,* you will see that we there reviewed the purchases that were made in 1907, when it has been alleged, and not without some show of reason, that we bought more silver than we ought to have bought. You will find that in that year the Government of India from time to time asked the Secretary of State to buy silver, and he did so, but every now and then we heard from the Government of India, "We have bought so much in India in addition to what you are buying for us." All the details of that were left to the Government of India. That is my recollection, and I think it is correct.

11,503. (*Chairman.*) I think in the earlier evidence you gave to us you explained to us the nature and the conditions of the two Reserves, the Gold Standard Reserve and the Paper Currency Reserve?—Yes.

11,504. Incidentally, in that explanation you dealt with the silver holding in the Gold Standard Reserve?—Yes.

11,505. If I rightly understood your view, that silver was held in order to meet the exceptional demands for currency?—That, I think, was the reason given when the silver holding was established. I think that, as years have gone on, we have seen that the function which can be served by that holding is rather different from what was contemplated when it was first established.

11,506. How would you define its present function?—I have endeavoured to define it in my Memorandum on the Gold Standard Reserve,† but I might briefly remind you of what I put there. At certain times the Government of India have enough rupees in their various reserves, but their treasury balances or free balances are rather low. And it is not possible for them to take rupees out of the Paper Currency Reserve, except by cancelling some of the notes that are in their free balances or treasury balances, and *ex hypothesi* they have no notes to spare. Therefore, it is a difficult matter to get the rupees into circulation. They are in the Paper Currency Reserve, and they are locked up there, and the only way of unlocking them is by transferring gold to the Paper Currency Reserve in England. I think I explained that at the time, and I hope I made it clear. Sometimes there is no objection to transferring gold in that way, but at other times it is rather serious, both directly for the London market and indirectly (but with equal importance) for Indian trade. By holding a certain number of rupees in such a form that we can get them out and put them into circulation without going through this process of ear-marking, we give elasticity to the Indian currency which it would not otherwise possess. If other schemes are under consideration for giving elasticity to the Indian currency, then I think the last usefulness of this silver holding in the Gold Standard Reserve has passed away—or rather it will pass away, if any such scheme is adopted.

11,507. What a little puzzled me was this: You had this silver in the Gold Standard Reserve for certain contingencies, and you had a great demand for silver, and some difficulty in purchasing it in the then conditions of the market without adversely affecting the price; why did you not use the silver in the Gold Standard Reserve at that moment?—There was no objection to using it. The reason for purchasing, if I may give an answer, which, though it may not seem to be so, is really an answer to your question, was this: We had made calculations which, I think, have been justified by subsequent experience, as to the total amount of rupees that we ought to have as a rule in the various reserves at the beginning of the busy season. In 1912, when we bought silver, we reckoned out how much we should have in all the reserves, including the Gold Standard Reserve, and found that on the best calculation we could make we should not have enough to open the busy season with. Therefore, we bought silver so as to bring the aggregate amount up to the standard. Whether one began meeting the demand by taking rupees from the Gold Standard Reserve, or by taking it from the Paper Currency Reserve, was, I think, a matter of comparatively slight importance, except that I should add the Government of India have always attached what, perhaps I might, without disrespect, call a somewhat unreal importance to holding the rupees in the Gold Standard Reserve as a last line of defence.

11,508. A last line of defence against what?—Against a very great demand by the public in India for rupees. Perhaps I may put it this way: We have to meet a demand on the part of the public; I do not think it matters very much whether we first of all meet it by paying out the rupees from the Gold Standard Reserve and then from other resources, or whether we do it the other way round. The Government of India—I think Mr. Gillan, who knows their mind, will confirm me—have always attached importance to beginning with the other resources and ending up with the rupees of the Gold Standard Reserve.

11,509. What was the total amount of silver that you purchased in 1912?—Approximately 7 millions.

11,510. What was the amount that you had lying in the Gold Standard Reserve at the beginning?—At the beginning of the busy season in 1912 we had less than the usual amount; I think it was between three and four crores, but I daresay you have the figures available. We ended up that season by paying into the Gold Standard Reserve a certain proportion of the profits of coinage realised during that season; we put them in in rupees. That was in order to meet the wishes of the Government of India to have that branch of the Gold Standard Reserve up to its usual strength.

11,511. The net result was that, having a reserve of rupees in the Gold Standard Reserve, and having a large, and, I think, almost unexampled demand for rupees, you met that demand wholly by fresh purchases in what, I think, you would describe as an

* Cd. 7070, App. V., pp. 207-9.

† Cd. 7070, App. III., p. 94.

unfavourable market, and did not touch your reserve?—I think that that requires some qualification.

11,512. If you think it requires qualification please correct the statement; it may have been in rather an affirmative form, but I put it to you as a question?—May I put the justification for the purchases that were made? According to my recollection, when we began purchasing we had somewhere about 13 or 14 crores in the Paper Currency Reserve—I have not the exact figures—and rather less than 4 crores in the Gold Standard Reserve; that was 17 crores in all. We wanted to begin the busy season with 24 crores; the distribution, according to my judgment, did not matter much, but we wanted to have the 24 crores and we bought for the purpose of bringing our stock up to that aggregate.

11,513. I had got the impression, perhaps wrongly, that these rupees in the Gold Standard Reserve were intended as a sort of cushion to break your fall upon the market under certain conditions; but you do not accept that view?—No; I would put it in this way, which expresses what has certainly been said by the Government of India, and I think accepted and recently accepted by the Secretary of State: If we begin with our 24 crores, which is the standard figure, then as the season goes on our stock falls and we may or may not be able to purchase fast enough to replenish it. If we are not able to purchase fast enough to replenish it, then in the latter half of the busy season we should take out the six crores, or whatever the amount might be, in the Gold Standard Reserve, and use it as a cushion at that stage and not at the beginning of the busy season. The whole question, and I think the Government of India regard it as very important, is in respect of the time at which we are to use this extra resource.

11,514. I want to ask you one other question about the use of coin or bullion in the reserve. I have not recently refreshed my memory of what you said when you were here before, and I may be asking you to repeat yourself; but when an exchange crisis occurs again and the Government has a certain holding of gold in India, as it is certain to have, how do you think the gold should be used? I take it that in the first place, if such a crisis arises, you think that the gold resources of the Government at home and in India should be freely used?—Freely and boldly used.

11,515. Without hesitation?—Without hesitation.

11,516. Now I come to the particular resources which may be in India, and which are in India under the present circumstances. What should the Government of India do with them? Should it issue the gold in its possession to all applicants as far as that gold will last, or should it ship the gold home and sell bills against it?—From the point of view of exchange, the first alternative would certainly be a bad one; I think one can say dogmatically that it would be a bad one, although there might be some advantage, if our other resources were sufficient, in allowing anyone who wished to have gold up to a moderate amount for use in India to have it. To refuse it would be to deprive him of a certain minor advantage which he has been accustomed to expect; but if one gave him the advantage, one would be doing it, in my opinion, at the expense of a somewhat greater interest, namely, the maintenance of exchange. Assuming that your first alternative is rejected on that ground, there are two other alternatives. I think that you put only one, viz.: Shall the Government ship gold itself?

11,517. Yes?—It might do two things. It might either ship the gold itself and sell bills against it, or it might issue it to exporters, having satisfied itself that they really wanted it for export, and then it would no doubt serve to a considerable extent to support exchange. That latter alternative has this weak point, that there might be a difficulty—I do not know how great it would be—in genuinely satisfying oneself about the *bona fides* of the persons who asked for gold and said that it was for export. Therefore, I think the safer course is to adopt the second alternative that you mentioned.

11,518. For the Government to ship the gold and to sell bills against it?—Yes.

11,519. Some witnesses, and witnesses whose opinion is entitled to great weight, have strongly taken the other view. I do not think that they would dispute what you say, that for the Government to ship gold to England and to sell bills against it, is the most directly effective way of maintaining exchange, and would give you the greatest exchange value, if I may so express myself, for the amount of gold, whatever it was, that you had; but they have urged upon us that any appearance on the part of the Indian Government of being unwilling to part with gold to the first-comer as long as their resources lasted would tend to lack of confidence, and so might indirectly aggravate a crisis of exchange; and though they admit that the whole of the gold you gave out, or at any rate very large portions of it, would never go to the support of exchange, yet they think the moral effect of giving it out would be a greater support to exchange than if you refused. I put that to you in order to know whether you have considered that view, and whether you hold the opinion that on balance that is illusory?—I have often considered that view. Since our currency system was established there has been a vast amount of discussion about confidence, moral effect, people's nerves, people's imaginations, and so on, in these matters. My belief, very largely based on the experience of 1908, is that when gold or any other form of sterling money is demanded from us for the support of exchange it is demanded in order to satisfy a genuine trade demand. I do not think that panic of the kind that is suggested did occur in 1908, from which we draw most of our experience, or is likely to occur, because there is really no reason why anyone should go out of his way to get any form of gold or sterling remittance from the Government unless he wants to pay a debt which can only be paid by sterling money.

11,520. One other question, which I think we dealt with in your examination when you came before us some time ago. If it were found convenient from the Indian side to change the date of the budget year, would there be any serious difficulties, as far as you can see, on this side?—Do you mean from the point of view of the India Office or of Parliament?

11,521. From the point of view of either the India Office or Parliament; the India Office, let us say, first?—I am sure that the India Office could adapt itself.

11,522. Would there be any difficulty from the point of view of Parliament if the Indian year ran, not as now, from April 1, but either from October 1 or January 1?—There would be some little difficulty: but as a rule, I will not say invariably, Parliament is very considerate to the India Office. There would be some little absurdity, perhaps, in introducing an Indian financial debate, which is called the Indian budget debate, many months after the beginning of the Indian financial year. If the year began on the 1st October, as is likely to be the case if any change at all is made, and if the debate could not take place until the following June or July Parliament might feel that there was some unreality about it. But, as I daresay you have noticed, the so-called Indian budget debate tends more and more to be a debate about Indian questions generally, in which the financial part is not of preponderating importance. Then there is a question about the date at which loans would be issued. It would require a little care to decide what would be the best time to issue a loan in order to meet the requirements of a year which began in October. Probably we should issue the loan rather late in the financial year, but if there were some special reason for doing otherwise, we could issue it in anticipation. We have done that before, and I do not think there has been any serious disadvantage. The only disadvantage is that our closing balance looked rather high when we did it, but there is not very much in that, I think.

11,523. Now I turn to quite a different subject. Since you came before us, we have had a great deal of information supplied to us about the proposal for a State bank; for my part I do not desire to examine you in any detail on that subject, but I should like you to state broadly your views upon it?—I am in favour of a State bank for two main reasons. By far the more

important is that a part of the balance now in the reserve treasuries should be placed at the disposal of trade: and to do this by increasing the already very large deposits with the Presidency banks as at present constituted, is open to certain objections on the ground of safety, on which I had the opportunity of saying something during my earlier examination. Another reason, though less important, is that so far as some business now done by the Government is of a banking character, it would be better to transfer it to a State bank. We are all so used to the existing arrangement that we are apt to overlook its defects and its singularity. It occurred to me that one could best see how singular it is if one considered the instance of two foreign nations, one of which does a certain amount of banking business which is done by a minister and his subordinates, the minister being the representative of a Party, and liable to be attacked by the representatives of the opposite Party; while in the other nation the same kind of business is being done by a bank which, though under some kind of control, is definitely not a Government institution. I think that if one were considering two foreign nations, the latter method would commend itself more to the general judgment. I think there is some danger that those who are in favour, as I am, of a State bank, may exaggerate the importance of the advantages which it presents. I am very anxious not to give it more support than it deserves. The addition to the banking resources that it would involve—and when I say banking resources I mean the amount that would be placed at the disposal of trade—is fairly well measured by what could be taken from the reserve treasuries while leaving them with an emergency reserve of, say, 1,000,000*l.* or some such sum. One of the papers I handed in shows that very often in a busy season, when a million is held in the reserve treasuries, there is not much left to place at the disposal of trade, so that the advantage of a State bank would not be always on a very large scale.

11,524. (*Sir Shapurji Broacha.*) I think you prepared a scheme for a State bank in response to questions put you by the Commissioners?—I handed in a memorandum, if you remember, in which I defined the functions of a State bank*; but I have not done anything further since that.

11,525. Anyhow, there is no request from the Indian Government to have a State bank?—No.

11,526. All the witnesses from the Indian Government have said that they do not think it is practical politics, and they were rather surprised that this question was pressed on the Commission. It has not been brought before us as a request from the Secretary of State?—No.

11,527. And it has not come from the people of India. Why should we have a State bank if those most concerned in it do not require it?—I am afraid that occasionally the Government takes the initiative in proposing changes which other members of the Government organisation do not initiate, and which perhaps the people of India have not felt the need of. I might give you a rather striking illustration, if you will spare me a minute, of the way in which the Secretary of State is sometimes extremely useful in taking the initiative in matters of this kind. I have recently been refreshing my memory about the history of the Bank of Bombay, which failed in 1868. It interested me to see that the first step which was taken to examine into the affairs of the bank, and to check the bank on its headlong course to destruction, was taken by the Secretary of State, acting on his own initiative and in response to no suggestion made either by the Government of India or by the Government of Bombay or by the people of India. I merely put that in as showing that, because a suggestion originates in this Office, it is not on that account to be regarded as bad or uncalled for.

11,528. We have had here two distinguished financial members of the Indian Council, and whenever we asked them questions about a State bank, they were against it. If the Secretary of State wanted to take any initiative in the matter, he might have spoken to us about it?—I explained at the beginning of my memorandum* that the Secretary of State was good enough to allow me to put before the Commission such views as I personally had formed after having been connected with Indian finance for many years. I think it would have been scarcely proper, in his position as a final Court of Appeal, to take any active steps or even to indicate a strong opinion at this stage.

11,529. In your scheme you both bless it and ban it equally?—If there is one virtue that we officials try to practice it is the virtue of fairness and impartiality. I thought it right to mention the drawbacks, just as now, when I was explaining to the Chairman that on the whole I am in favour of a State bank, I thought it right to explain its limitations.

11,530. But it is is not one of the subjects given to us?—We gathered that the Commission was interested in the matter, and we thought that such views as the India Office could lay before the Commission ought to be laid before it. If the Commission had decided not to take the matter up, of course, the India Office would have had no say in the matter.

11,531. If they take it up, it will be on their own initiative, and not on account of something they are asked to do. Would it not be thought very officious of the Commission to force something for which neither the people, the Government nor the Secretary of State have asked? We might make many other suggestions which are not within the mandate of the Commission?—I do not quite agree with you, for this reason, that the question of the State bank is *ejusdem generis* with the other questions that have been definitely referred to the Commission by His Majesty's Government. It is so closely connected that I think it would scarcely have been possible for the Commission to avoid considering it in one way or another, in the same way that the Fowler Committee of 1898 did also consider it, though not with very great minuteness.

11,532. But those who were very great enthusiasts at the time of the Fowler Committee have refused to come and give evidence, because so many of the Indian conditions have changed now?—I can quite understand your attaching weight to that consideration, but I attempted to form an opinion, on a review of our Indian financial system as it now stands, regarding the advantages and disadvantages of the State bank: and since I understood the Commission was interested in the matter, I thought it natural that those who have studied the matter should lay their views before you.

11,533. We have had a witness in the person of the Finance Minister himself, who has just left office and returned to this country, which was to the effect that a State bank would make the position of Finance Minister almost untenable—he went so far as that, and he has the latest experience of any?—He is the latest Finance Minister, but I think it is fair to say that he has not had a very long experience of Indian finance. I think that if you get the same opinion expressed by men like Sir David Barbour, who was many years in the Finance Department, it would carry a great deal of weight, but I do not think that four years' experience is quite enough.

11,534. He has had five years?—It is less than five years. Sir Guy Fleetwood-Wilson went out in the autumn of 1908; he left in the summer of 1913, and in that period he had taken, I think, six months' sick leave—unfortunately he had to.

11,535. He may have had simply five years in India, but he had many years before that in which he was gaining experience of financial subjects, and was engaged in the discussion of financial matters; whereas the experience of Sir David Barbour would be ancient history, just at present?—I agree with you that it would be so on many points, but I think that on this question of organisation, and the relations of the Financial Department of the Government of India to a State bank, the old experience is still valuable.

* Cd. 7071, App. XIV., p. 339.

* Cd. 7071, App. XIV., p. 339.

11,536. You know the request was made about twelve years ago; that request has not been repeated, and it could not, therefore, have been very earnestly made?—I certainly do not wish to criticise more than I have done the older schemes for a central bank or a State bank; but I think I may fairly say that the very slight sketch which I put forward in my memorandum, and the fuller sketch Mr. Keynes has put before the Commission,* are both of a bank of a much more practical kind than was contemplated in 1898. I do not think the kind of central bank that was contemplated by Sir E. Hambro or Mr. Alfred Rothschild ever had much of a chance either of being established or of succeeding if it were established.

11,537. (*Sir James Begbie.*) I was very much interested in your scheme of a State bank. There is one point I would like to put before you, that is, if the bank is to pay interest on the Government deposits in the shape of a share of the dividends, that would mean, would it not, that the bank would be compelled to employ the whole of the Government money, as the bank could scarcely pay interest on the money without employing it?—I felt when I wrote that portion of the memorandum, that it was the part with which I was least satisfied. I wrote it under some pressure of time, and I think I indicated that that particular part of my scheme was put forward very tentatively. I have not the memorandum before me, but I quite agree with you that it might be disadvantageous from one point of view for a bank to take from the Government all through the year money that they could only use during part of the year, and that in respect of the total amount or the average amount of the money so held it should pay a certain fraction of its total earnings. I have always considered, as one does with so many contracts, that when one knows that both parties are anxious to make a contract of some kind or other, one will be able to get over that particular difficulty, but I have no desire to minimise it now.

11,538. It would be a matter for discussion if the scheme is carried further?—Yes. I think there is much weight in your criticism.

11,539. (*Mr. Gillan.*) I am not clear about what you said to the Chairman about the use to which the gold should be put that we hold in India; I think you said that it ought to be shipped home by Government?—I think that that is by far the safest way of ensuring that it will be used for the support of exchange; that is to say, to pay the foreign debt of India which for the time being is the cause of a fall in exchange.

11,540. It involves not letting out any gold for internal use; it involves stopping it, does it not?—If it is carried to the last extreme, it involves stopping it. I think when one is balancing against one another the two considerations which I put in reply to the Chairman, one should have a certain amount of regard to the magnitude of the sterling resources available to support exchange. If one had so vast a sum in London that it was enough to meet all likely demands, then one could safely say to anyone who wished to have gold for internal purposes in India: We will not interfere with you. If, on the other hand, one was doubtful as to the sufficiency of the other resources, I think perhaps one ought to harden one's heart and say, For the time being you must refrain from taking gold from the Government for home purposes. But I should be very unwilling to say anything dogmatic on that point, because, as I say, it is a question of balancing two considerations, both worthy of considerable regard.

11,541. Suppose you feel at any moment that your sterling resources in London are sufficient, then at what sort of point would you stop the outflow of gold in India?—I think the answer to that is almost of a psychological nature. So long as you are absolutely confident that you have had enough in London, then you would not deprive anyone who wished for gold for internal purposes in India of the advantages of having it. As soon as you were doubtful, you would then mobilize your gold resources to be used for the most pressing purpose. I dare say that sounds a little indefinite, but I think it is as definite as the circumstances allow.

11,542. I want to see if we can put it in any practicable form for the Government of India. Suppose you have a crisis; your resources in London may be all right to start with; sometime subsequently perhaps you get a fear whether they are going to remain all right. In the meantime, if you have done nothing in India, the probability is that any gold you had there has run out?—I think that one would be guided by the events of each day, or at any rate, of each week. Let us assume, for instance, that at the beginning of what appeared likely to be a not very severe exchange crisis, you parted with a million sovereigns in a week, and only a trivial proportion of that was exported, then I think, having lost your million, you would probably say: We must now stop the issue of gold for internal purposes. I do not think that you could decide what you are going to do more than a week or two ahead, and possibly you might have to change your decision in the course of one day.

11,543. You would not be in favour of stopping the outflow of gold the moment, for instance, exchange began to droop or anything of that kind?—Of course, one would be guided by circumstances. Supposing that the resources in London were fairly strong, and the gold held in London was so considerable that one need not be afraid of losing such a sum as a million, then I agree with you I would not stop it at once.

11,544. Supposing, after the crisis had developed, one of the exchange banks came to the Comptroller-General and said that they could export gold, we will say, to the Far East, would you let the bank have it?—Yes, I would regard that kind of exportation as one which either directly or indirectly would support exchange.

11,545. You would not be at all rigid in what you are suggesting as to the shipping by Government of the gold to London?—No; I would not be rigid. Let me explain the way I should regard it by the analogy of the way in which we arrange during the busy season whether to buy silver. At the present moment there is no harm in my mentioning that, having bought 4½ millions of silver, the Secretary of State is undecided whether to buy more, and we are constantly telegraphing to the Government of India on the subject. Our last word to them was "We will watch "events for a few weeks, and then we will decide; but "we do not want to take the risk of doing something "rather important which may turn out to be wrong "owing to the uncertainty of future events, and so we "will wait until the time comes when a decision is "necessary." In much the same way, I would deal with the question of stopping or not stopping the giving out of gold to the public for internal purposes in India. I think I am right in understanding that my answer is on much the same lines as your question; I mean my view is much the same as you were putting.

11,546. (*Mr. Keynes.*) In 1900 the proposals that were brought forward were for what one could justly call, I think, a central bank as distinguished from a State bank*?—Yes.

11,547. Are you in favour of a State bank or a central bank?—A State Bank. In fact, I think that the general outcome of my memorandum was that if there is to be a central bank at all it must be a State bank.

11,548. Do you attach importance to this State bank, though under the ultimate control of Government, being independent of Government from the point of view of day-to-day transactions?—Yes. I entirely agree with what you put (and if I may say so, put very admirably) in the memorandum† which I have read. I want to clear up a possible misunderstanding. In your memorandum you have proposed that the central board should consist of a Governor, who would be appointed by the King, a Deputy-Governor, to be appointed by the Viceroy, and the Government's

* Printed as an Appendix to the Final Report.

* *See* App. XV. (p. 355) in Cd 7071.

† Printed as an Appendix to the Final Report.

representative; you also mention in the Appendix to the memorandum the practice of certain Continental State Banks, and you leave it to be understood or misunderstood that they are the models which your scheme follows. I believe actually that you do not wish an Indian State Bank to be an instrument of Government in the same way that the Continental State Banks are the instruments of their respective Governments, and that this appointment by higher authority of the Governor, Deputy-Governor, and Government representative, is not intended to subordinate them to the Government, but to make, at any rate, the Governor and the Deputy-Governor independent to a very great extent both of the shareholders and of the Government. It is on that understanding that I give my general agreement to your memorandum, and I mention it merely because the other view might easily be taken by anyone who read your memorandum rather hastily.

11,549. I may say that what you have said is the right interpretation of what I meant. Is there anything of a general character that you care to say about the relation of the executive officers of the bank to the shareholders?—My general view would be that the shareholders must have a considerable amount of influence on the behaviour of the executive officers of the Presidency Banks at the Presidency head offices as distinguished from the central board; but the influence ought not to be of such a nature that it entirely controls the action of the Presidency head offices. One wants practically the real government to be to some extent by shareholders and to some extent by the Government representatives.

11,550. If the supreme power of the Bank is in the hands of a central board which is distinct from the Presidency head offices, is it possible, do you think, to obtain that degree of decentralisation which is required for the dispatch of business in different parts of the country?—Yes. That is one of the problems which it was the object of your memorandum to solve, and I think you have solved it—I ought not, perhaps, to express too enthusiastic an agreement with you—extremely well. I was absolutely satisfied with your solution.

11,551. What is your feeling as to the position of the Secretary of State in the event of the establishment of a bank of this kind, particularly in his relations to Parliament?—There again I can do little more than express my agreement with what you have put. You have explained that there are many subjects on which the Secretary of State would be able to say: This is a matter for the Bank and not for me. Of course that would not apply to the biggest subjects, I mean large questions of policy, but it would apply to everyday questions. I think that what you say about that is obviously correct; at any rate, to my mind it is absolutely convincing.

11,552. Do you think that the Secretary of State would be in a more favourable position than he is now in the event of criticism of financial details, or not?—I think he would be in a more favourable position. He might have more questions put to him, but he will have better answers to them.

11,553. I suggested that if there was an establishment in India in a position to buy sterling bills on London, some part of the Secretary of State's floating resources in London might be held in the form of sterling bills having an early maturity; what is your general opinion with regard to that suggestion?—I have no objection to that, provided it is accompanied with what I understood you to contemplate, a limitation of the bills to those which bear the names of firms or institutions of very great repute.

11,554. Bank bills?—I think they would be bills either drawn, or accepted, or endorsed by the exchange banks. If it became a question of holding bills, the names on which were names of private firms, about whom it might be difficult to get information, then it would be undesirable that the State Bank should hold such bills; but you do not contemplate that.

11,555. If that were done, do you think it would do anything towards meeting the criticism against holding a great deal of Indian money in London, and using it for the general support of the London Money Market, and only indirectly for the support of Indian trade?—I think it would have some effect. I do not attach quite so much importance to it as you do in your memorandum, for two reasons. I do not suppose that the exchange banks would bring all their bills, perhaps not even the greater number of them, to the India Office, or to the State Bank in India, to be rediscounted; and I do not suppose that the State Bank would wish, on its side, to be regarded as the one regular resource for the re-discounting of bills, which would set up the idea that it undertook a greater obligation towards the exchange banks than it really wished to do. Perhaps I might mention this consideration, which no doubt you have not overlooked—that the chief difference between the present method of the Secretary of State making his remittances, and the new method which is proposed in your memorandum, is that at present the Secretary of State gets the money before he pays out rupees; he gives no credit, but credit is given by the Bank to the Government. Under your method, the State Bank would be giving credit, and would be making payment before it received the equivalent. Although that is quite reasonable, one does not want to do it to an unlimited extent.

11,556. If it is an alternative to lending money at short notice in London, what it amounts to is substituting the holders and backers of the bills for the brokers who now get the money, is it not?—The firm that now borrows money pledges not only its own general resources, but specific resources as well. That would not be the case if the State Bank re-discounted the bills for the existing bank.

11,557. But you would not maintain, would you, that there was any appreciable risk in taking bank bills of that sort?—No, I should not say there was much risk; but when many millions were involved, you do not want to take even small risks. I am not arguing against doing what you propose; I am only arguing that it might not be advantageous to do it on a very huge scale.

11,558. I should like to ask your opinion with regard to some of the main criticisms against a State Bank which we have heard. The one which I think we have heard most frequently from witnesses is that India is too large and various in local customs to be worked by a single bank?—I am not much impressed by that. I ought to be, perhaps, because I know many critics with a very great knowledge of India, like Sir Shapurji Broacha, attach very great importance to it. But if one considers how widely spread are some of the great banks, for instance, the Chartered Bank of India, Australia, and China; or the Hong Kong and Shanghai Banking Corporation, it does not seem to me that there ought to be any insuperable difficulty in having one bank which does business in various parts of one country. The same criticism, if there was any force in it, would apply to the Bank of Bengal, which has advanced certainly as far East as Burma, and as far West, I believe, as the United Provinces, but I do not know what is its westernmost extremity.

11,559. (*Mr. Gillan.*) They go into the Punjab?—If the same bank can operate in Rangoon or Mandalay, and in Lahore, I should think it could not be impossible for the same bank to operate in Calcutta and Bombay.

11,560. (*Mr. Keynes.*) The criticism, perhaps, of next importance, or at any rate, which we have heard most frequently, is, I think, that the local jealousies of Calcutta and Bombay are too strong for them to agree to work together in a common institution of this kind?—I have seen in the papers many indications that the Bank of Bengal, the Bank of Bombay, and the Bank of Madras are all prepared to look favourably on this scheme. I think that is really the best answer I can give. It would be useless for me to try to estimate the local jealousies. I have never been in India, as you know; perhaps, when I come back from India a few months hence, I shall have an opinion on the subject.

11,561. During the negotiations in 1900–1 a good deal of emphasis was laid on the position of the exchange banks in the event of the establishment of a State Bank; do you think there is anything which interferes in an unreasonable way with the interests which those banks have established in the sort of proposals we are contemplating?—Nothing at all. I have read the evidence given by Mr. Toomey and Mr. Fraser. They were evidently contemplating a State Bank which would take exchange business out of their hands.* They very much disliked the idea, and I think any of us being in their position would have disliked it. But I should imagine that when they read the memoranda which you and I have drawn up about the State Bank, which provide most tenderly for the interests of exchange banks in respect of exchange business, they will probably feel that their only objection had disappeared. Perhaps I am rather confident, but it seems to me that the only substantial objection that they put forward is absolutely met by those memoranda.

11,562. I think you have already, in answer to Sir Shapurji, dealt with the argument that there is no popular clamour for the bank, and also in an earlier answer to me in regard to the position of the Secretary of State. There is one other argument, the historical argument, which is held to prove the experiment of semi-State Banks was not fortunate; is there anything that you care to say in regard to that?—The common argument is that the failure of the Old Bank of Bombay shows that the less the Government have to do with a bank the better it is. I have been through the Report of the Commission of Enquiry into the failure of the Old Bank of Bombay and also some other documents and books connected with the matter. It is as clear as daylight to my mind that the one lesson which is to be deduced from all that history is that it is most desirable that in such a matter as banking, especially in a country like India, the Government should exercise a certain amount of effective control over it. I noted in reading through the Report what were the chief causes of the failure of the Old Bank of Bombay. One set of causes was a number of defects in the Acts and Byelaws which governed the Bank. They, as a matter of fact, have since been removed, and one need not dwell on them, except to say that at the time of the failure, and shortly before the failure, too much discretion was given to the Bank and its officers in granting advances. Now the constitution has been improved, and there is a reasonable amount of discretion, but not an excessive amount. Apart from those constitutional defects, the causes of the failure of the Bank were personal causes. In the 60's, owing to the American Civil War, there was first of all a great accession of prosperity to Bombay, owing to the demand for Indian cotton, and then when the war was coming to an end the prosperity of Bombay received a very sharp check. It was within that period of sudden prosperity and sudden cessation of prosperity that the failure occurred. In those very difficult times the bank was managed by a number of people whose qualities are very fully described in the Report of this Commission, published in 1869. It was a very strong and good Commission. They mentioned, if I may quote a few pages I copied out, that the secretary of the bank was a person of imbecility and weak moral character. He accepted allotments and shares from promoters of almost all companies started in Bombay, and embarked on large share speculations on his own account. He concealed from his directors the fact that he was lending money on personal security, and his concealment is quoted by the Commission as showing that he was dishonest, and deceived those by whom he was trusted. They mention one of the Government directors who attended the bank only on board days, and presided at meetings of the directors, and looked in once or twice a week, but who otherwise would be absent at very critical periods. He was absent entirely during three months in the critical year 1864. It is mentioned that he said he was ill during this period, but was not too ill to attend at his office or at the bank when he chose to do so; notwithstanding failing health, he was busy at this time procuring allotments in the best companies that were brought out—as you know, it was a time of the flotation of very many speculative companies—and selling such allotments at the proper time to secure good profits. He made within a certain period by successful speculation of this kind 37,000*l*. They end up their remarks about him by saying that his whole administration, after the passing of the Act of 1863 which altered the constitution of the bank, was remarkable for nothing but idleness and incompetence. The third person who is mentioned is one whose name, I think, can scarcely be omitted, because it was so famous in his day, a certain Premchund Roychund. I believe he was a man in private life of very high character. But he was a great, and for a time, successful speculator, and had a most persuasive personality. For some years, the Commission say, the bank practically was his; he said what was to be done, and it always was done by the officials of the bank. They say of him that he acted without any sense of responsibility or duty, without honour or principles himself, that he corrupted the secretaries, never disclosed to his brother directors the business the bank was doing, and used its money for his own purposes and for the ruin of the interests of the bank. Besides using the bank's money for his own purposes he also procured large amounts, so I gather from another authority,* for his partners in speculation; and the balance due from him when the bank broke up was about a quarter of a million. I mention those facts because I think they show that the dangers and troubles which led to the failure of the Bank of Bombay are partly such as are not likely to recur; I mean that it is scarcely thinkable that at the present time, there should be such a collection of incompetent, dishonest, and wildly speculative people in charge of the bank. But, although troubles of this kind are not likely to recur, it is clear, I think, that if there is any slight tendency in the same direction at any time in a speculative period, it is an advantage that the Government through officials who are notoriously of a very non-speculative disposition, should have some slight power of control. I was going to mention in this connection, but I have already mentioned it in answer to Sir Shapurji, that such useful work as was done in stopping the bank before its troubles became even more serious than they actually became, was done by the Government, and, as I mentioned, to some extent by the Secretary of State. In summarising these facts I do not know that I have brought out the conclusion which I deduce from them, but it is that so far from supporting the view that the Government ought to have nothing to do with banking, this history supports exactly the opposite view—that Government control, if wisely exercised, is very salutary in regard to the management of a great bank.

11,563. (*Lord Faber.*) Do you think that any rules you could lay down over a series of years would prevent the existence of rogues?—No. One of my reasons for wanting Government directors is that, if you do not have them, you have to rely merely on rules, and I entirely agree with you that you want something more than rules—you want personal contact, knowledge, and supervision; and I think it is only by some Government participation in the management of a bank that you can have that.

11,564. (*Chairman.*) In this particular case you did have a Government director, but the choice was unhappily so unfortunate that he involved the responsibility of the Government without protecting it?—He, to some extent involved the responsibility of the Government. In the end the Government had to put money at the disposal of the bank in order to meet pressing creditors, and I think that would have been equally the case if there had been no Government director. I should like to mention that so far as I know—I ought to have made certain of this, but I

* Cd. 7069, Q.A. 2621, &c.

* See *Premchund Roychund, His Early Life and Career*, by D. E. Wacha (Bombay), 1913, p. 160.

have not had time—I believe the Government director was not an official.

11,565. (*Mr. Keynes.*) I was on the point of asking that: you rather implied by saying that he was able to attend at his office, that he was a private merchant?—He was a private merchant. I really to some extent pin my hopes of the good management of the State bank on the Government director being an official with the good qualities and the limitations that go with the official training.

11,566. I have not any further questions to ask on the State bank, but there is one other that I should like to raise. In the evidence which you gave us some months ago, I think you laid a good deal of stress upon the possibility of the reserves being allowed to increase to a wasteful level, by which you meant the reserves getting bigger than ordinary prudence required. That view was strongly supported last week by Lord Inchcape, but I should say that the majority of the other witnesses we have heard rather laid the emphasis the other way and took the line that there was much more danger of the reserves being too small than of their being too large. In taking that view do you hold that it is the total sterling reserves in all forms which might be wastefully large, or that the Gold Standard Reserve taken by itself might be wastefully large?—I do not think that I would draw a very sharp distinction between the two views. If I may put my view it is that when we have provided in whatever way a sufficient amount for the maintenance of exchange, then other resources that might be held in reserve for the maintenance of exchange should not be so held. But I think that there is great convenience in having a somewhat definite idea of what particular reserves are to be used for the maintenance of exchange. If I follow your question you were contemplating the possibility, although I quite agree that you did not put it as your view—that one might at each time consider what are the total resources, including the cash balances held by the Secretary of State, available for the maintenance of exchange, and then decide about the management of the Gold Standard Reserve on the basis of such a review. That does not much commend itself to my mind, because one has to distinguish between the reserves which are permanently held for a particular purpose, and those which, though large in one year, may be very small in another year.

11,567. I was arguing rather on these lines: I quite agree that there is a risk of the total reserves being too big, and that would be a most unfortunate thing for so poor a country as India; but there are two possible ways in which excessive reserves might be avoided: Assuming that the reserves outside the Gold Standard Reserve were to remain at about their present level, you might on that hypothesis fix the total for the Gold Standard Reserve; or, on the other hand, you might fix no total for the Gold Standard Reserve, and leave it to the administrators of the country to diminish the amount of sterling resources held in other ways as the amount of the Gold Standard Reserve gradually increased?—I think as a working rule—a rule which it would be easy to work from the Government point of view, and easy for the public to understand—it is better to adopt a certain assumption as to the other resources including the gold in the Paper Currency Reserve and the cash balances, and to say on that assumption that the Gold Standard Reserve ought to be of such and such amount, and then that policy having been set forth, when certain profits of coinage accrue and they are in excess of what is required for the Gold Standard Reserve, one could use them for other purposes, and say to the public that all this is in accordance with the policy which has been clearly set forth, and which is generally accepted and understood.

11,568. But you would agree, would you not, that the amount of the reserves outside the Gold Standard Reserve is very fluctuating, and depends not upon any formal rule or statute but upon the actual policy pursued in a great many different particulars at a given moment?—That is so to some extent; partly, I think, because there has been so much difference of opinion at different times between different authorities as to the right method of handling such reserves as the gold in the Paper Currency Reserve. Supposing that this Commission adopted the view that it is advisable to have in England so many millions of gold, 5 or 10 or whatever it might be, in the Paper Currency Reserve, I think there would be no difficulty in keeping up to that; it might fall a little below at one time and might rise a little above at another time, but one could fairly confidently work to any standard which the Commission recommended.

11,569. If you were drafting a recommendation of this kind, how would you put it? Would you say, assuming there are 20 millions in gold in the Paper Currency Reserve, then the Gold Standard Reserve should not exceed 25 millions—I am taking the figures hypothetically? Would you frame your recommendation in that sort of way, or how?—I should be much more explicit and peremptory than that. I would say the wise course is to hold in the Paper Currency Reserve in England so and so many millions—it is no good giving a figure now—and it is wise also to hold a Gold Standard Reserve to which the profits of coinage up to a certain amount, 25 millions was the figure I mentioned, should be regularly added, together with the interest on the securities and to which, after the total of 25 millions had been reached, only half the profits of coinage would be added. I should assume as one fairly could assume, that the first part of that double recommendation would be carried out.

11,570. Would you leave out of account the gold which is held in India?—I was assuming for the moment, to illustrate rather the form than the substance of the recommendation, that that was being left out of account, but I see no reason why it should be entirely left out of account. As I say, my main reason for not mentioning it was what I explained, and in addition to that the amount is peculiarly fluctuating. We can regulate the amount of gold held in the Paper Currency Reserve here much more closely than we can regulate what is held in India.

11,571. If you more or less neglect the gold in India, and only take formal account of the Gold Standard Reserve and the gold in London, you would say that the limitation of the gold in London, plus the Gold Standard Reserve, is a practical issue? Are we within measurable distance of such a limit as you would fix?—Yes, I should say so. According to my view, if we had 30 millions in the Paper Currency Reserve in London and the Gold Standard Reserve combined, we should have enough to provide for all needs for which it is wise to provide. As you say, I attach great importance to it—I hope I do not weary the Commission too much by expressing my views on that matter—but I think that the India Office is in a peculiarly favourable position for regarding Indian finance as a whole. The currency position is a very important matter, but, of course, it is not the whole of Indian finance. and I feel very much from my experience that there is a danger, unless the general principle that Mr. Keynes has mentioned is duly regarded, that India will be making great sacrifices unnecessarily to appease the quite unreasonable fears about the sufficiency of the supports for exchange; and India, above all countries. is a country which cannot afford to make such sacrifices. If one offers up several millions to a sort of idol or fetish, it is a matter of very great regret.

11,572. You would attach very great importance, then, to some limitation—I need not settle on the precise figure—of the sterling resources held in London?—Yes. I should attach great importance either to a limit being suggested by the Commission, or else—which would be almost as good for my purposes—to the Commission very definitely and strongly recognising the fact that at some time or other, even if not now, a limitation is required in order to avoid waste, which India cannot afford.

11,573. (*Sir Shapurji Broacha.*) You lay great stress, in your memorandum in favour of a State bank,* on there being directors appointed by Government. You have given an account of the failure of the Bank of Bombay. The regulations, which were changed in

* Cd. 7071. App. XIV., p. 339.

1863, were not very strict then, and the bank departed from the rule in lending on securities of a very speculative kind; but there were two Government directors on the board, and they made no remonstrance?—That is so.

11,574. I suppose human nature has not been changed much since then?—I do not know whether you noticed that, in reply either to the Chairman or to Mr. Keynes, I mentioned that the Government directors were, I believe, not officials.

11,575. I believe that the failure of the Bank of Bombay was inevitable, as some people even had predicted, when the regulations were relaxed, and the Government allowed the Bank of Bombay to lend on speculative shares?—May I interrupt you to say that, if my recollection is correct, it was the Bank of Bombay which wished the clause to be inserted allowing loans on speculative shares. The Government ought to have refused to agree. I think we should all be at one on that.

11,576. Many attributed the failure of the Bank of Bombay to lending on these speculative securities, but that was done by Government sanction, and the blame was divided between the Government's directors and the Government. Turning now to another bank, the Bank of Bengal was not permitted by a statute to lend to any person more than a lakh of rupees. There were two Government directors on that bank. I will read you what is said about this:—"Meanwhile the Bank and Calcutta generally had been passing through difficult times. Between 1829 and 1832 there were several severe commercial panics consequent on the failure of some of the largest of the Calcutta houses. The bank itself appears to have been in no great danger, but stepped in to protect one of the most important firms which still remained, and in so doing deliberately infringed its Charter. To this firm the Board directly or indirectly advanced more than 23 lakhs, the extreme permitted by the Charter being one lakh. After the advances had been made they accepted some indigo concerns as collateral security, though the Charter prohibited the lending of money on the security of immovable property. Finally, when the firm failed in December 1832, the Directors worked the indigo factories themselves, being unable at the time to sell them to advantage. This again was contrary to the provisions of the Charter, which expressly prohibited the Bank from engaging in trade. The Government Directors had concurred throughout in the action taken, without apparently even mentioning the matter to the Government, and when, after all was over, an explanation was called for, they joined with the mercantile Directors in defending their course of action as the only policy they could properly have pursued. 'The occasion was one,' they said, 'which called for extraordinary and prompt 'aid, and though they were aware of the literal 'objection in the Charter Deed to an advance in 'excess of one lakh of rupees to any one party on 'simple personal security, they did not decree the 'spirit of the Charter to be opposed to a contingency 'which it could never have contemplated.' Elsewhere it is stated that the rule limiting advances to one lakh had been 'avowedly and openly contravened' from the first." How can you pass any statute or any charter for a concern of such a vast magnitude?—There is a substantial point here on which I should like to say one word. I quite agree that you cannot rely upon a charter or statute or bylaws to secure the proper regulation of a bank. You might say, pointing to what happened in 1832 and 1868 in Bengal and Bombay respectively, that you cannot rely on officials because if you ask them to look after a bank they will not do it properly. My whole reason for thinking that Government supervision or participation in the management is desirable now, is—I hope it does not seem too self-satisfied to say so—that official work is done incomparably better now than it used to be done. If you will allow me I will mention one fact which will interest Lord Kilbracken, as he was in the India Office. When this Act of 1863, which allowed loans on securities of all kinds, came to the India Office to be examined, I gather from the Report of the Commission of Enquiry that there was only one India Office official who wrote anything on it.* He was the Assistant-Secretary of the Judicial and Public Department of the India Office, who had it through his hands because it was a legislative question in form, though it was financial in substance. He wrote two words in pencil on the margin of the draft Bill, and that seems to have been the only thing that was done by any permanent official of the India Office. I think the Secretary of State himself wrote a few words, but below the Secretary of State those were the only two written by anyone. This official was apparently the only one who did anything with it. I think Lord Kilbracken will tell you that things are not done in that way now.

* *See* Parliamentary Paper of 1869, "Bombay Bank Commission, Report of the Commissioners," p. 5.

The witness withdrew.

TWENTY-EIGHTH DAY.

At the India Office, Whitehall, S.W.

Friday, 14th November 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

11,577. (*Chairman.*) We want this morning to examine you on the financial organisation of the India Office, which is one of the subjects referred to us. I suppose that in the last resort the Secretary of State in Council is supreme in all matters of Indian Finance?—Yes.

11,578. Under him will you tell me what has been the recent organisation of the Office in that respect?—Shall I begin from the top and go downwards?

11,579. Whichever way you prefer?—I think on the whole the more convenient way is to begin from below. There is a Financial Department which consists of the Financial Secretary and certain subordinates whom I need not particularise. He is responsible in the first instance at least for putting forward financial questions which have to be considered. Then above him there was until two years ago, between him and the Secretary of State in Council, practically no one except the Permanent Under-Secretary of State, because the Assistant Under-Secretary of State took very little part in financial work. Anything that was put forward by the Financial Secretary would be considered by the Permanent Under-Secretary, and then would go, if it was of importance, to the Secretary of State himself.

11,580. (*Lord Kilbracken.*) If I may interrupt for a moment, I think a great many papers, especially important ones, were also seen by the Parliamentary Under-Secretary on their way to the Secretary of State?—Yes. When I was Financial Secretary it was not within my knowledge what happened between the time when the papers went from the Permanent Under-Secretary to the time when they reached the Secretary of State, but I have no doubt it is the case, as you say, that they were seen by the Parliamentary Under-Secretary.

11,581. It was a matter of arrangement between the two Under-Secretaries that the Parliamentary Under-Secretary always saw certain papers which he wished to see on their way to the Secretary of State, and any important paper would certainly be among them. I will put it in the form of a question: Have you any reason to doubt it?—No, I have no reason to doubt it. I did not mention it because really, as I say, it was not within my knowledge. One noticed that you, when Permanent Under-Secretary, would sign a paper, showing that you had seen it, and then the next signature which appeared on it was that of the Secretary of State, showing that he had had it before him. The Secretary of State referred it to the Finance Committee as a rule. Then the Finance Committee made its recommendation as to whether what was proposed should be accepted, and then, if I may disregard certain minor details of machinery, it went to the Council, over which the Secretary of State presides, to be considered there: and the Council, with the Secretary of State presiding over it and directing its proceedings, would be the final authority.

11,582. I think it went back from the Committee to the Under-Secretary, did it not?—Yes; when I said that I omitted certain details of machinery, those were the details which I omitted, rather to abbreviate.

(*Chairman.*) I think those are of sufficient importance to be put in if there are any details of that kind.

11,583. (*Lord Kilbracken.*) It came back from the Committee to the Under-Secretary of State with the recommendations of the Committee?—Yes.

11,584. Which might or might not be very important; and it was then in the discretion of the Under-Secretary of State to take such steps with regard to that paper as he thought proper; he might send it at once to the Council, he might refer it back to the Secretary of State, or he might do other things?—Yes.

11,585. I do not think that step should be altogether omitted?—No.

11,586. (*Chairman.*) I am not quite sure what would be the first stage when a paper dealing with finance came into the office?—It would go to the Financial Secretary's Department.

11,587. And then from him it would go to the Permanent Under-Secretary?—Yes, with probably a draft of a despatch, or a telegram, or whatever was necessary.

11,588. From the Permanent Under-Secretary to the Parliamentary Under-Secretary and on to the Secretary of State?—Yes.

11,589. (*Lord Kilbracken.*) It would be seen by the Parliamentary Secretary on its way to the Secretary of State?—Yes.

11,590. I do not think the Parliamentary Secretary ought to be altogether left out, but he was not responsible, as a rule, for the passing on of the paper if the Permanent Under-Secretary was there?—No, quite so. The reason I left him out was this. It is perhaps not a matter of great consequence to explain, but I want to make it clear. I, as Financial Secretary, would send a paper to Lord Kilbracken—or Sir Arthur Godley, as he then was—and I would notice the initials "A.G." written on it, together with some expression of approval or disapproval if that was thought necessary. Then I would notice that the next initials on it were those of the Secretary of State, and I was not aware that at that time it was a regular practice that the Parliamentary Under-Secretary, though he did not write anything on it, even his initials, should actually see it.

11,591. (*Chairman.*) We will take that from Lord Kilbracken, I think. Then the paper going from the Permanent Under-Secretary, being seen by the Parliamentary Secretary, is laid before the Secretary of State?—Yes.

11,592. Does the Secretary of State always refer it to the Finance Committee, or would he in some cases deal with it without thinking it necessary that it should go to the Finance Committee at all?—In some cases, especially urgent cases, he would deal with it himself. You will find in the statute certain provisions for dealing with urgent cases.

11,593. But unless there was urgency the ordinary course would be that the Secretary of State would refer the paper to the Finance Committee?—Yes.

11,594. It goes, therefore, to the Finance Committee after going to the Secretary of State, and not, as a necessary part of the routine, before it goes to him?—If the paper were not very important, the Permanent Under-Secretary would mark it direct to the Finance Committee, but I think that your question refers to really important papers, and, if so, what you say is correct.

11,595. Going down to the bottom of the scale, you say that there is a Financial Secretary with certain officers subordinate to him?—Yes.

11,596. What officers has he to help him—what First Division Clerks?—He has first an Assistant-Secretary, then he has at the present time one Senior Clerk, as we call that class: they would be called First Division Clerks in the Treasury. There are also two Junior Clerks—what you would call in the Treasury Second Division Clerks—and then there is a number of clerks of the lower grades.

11,597. You have not mentioned in the organisation of the Finance Department the Accountant-General?—No.

11,598. Does he stand outside it?—Yes, he is the head of a Department separate from the Financial.

11,599. Can you broadly indicate to me how the functions of the Financial Secretary and his Department are separated from those of the Accountant-General?—The Financial Secretary deals with questions of policy, and obtains the decision of the Secretary of State in Council. The primary function of the Accountant-General is to make payments and to receive moneys which have to be made or received respectively in pursuance of the decisions arrived at by the Secretary of State. Then naturally connected with that work is the work of preparing accounts of expenditure and receipt of each year, and preparing estimates in anticipation of the financial year. Another important duty of his, which is not in all ways necessarily connected with what I have mentioned, is to superintend the lending of our balances. I think generally that sums up the work of the Accountant-General. To make it quite complete I should mention that some years ago we arranged that the administration of certain funds managed in this office—funds for pensions for widows and orphans, and so on—should be transferred to the Accountant-General.

11,600. The Accountant-General, therefore, with a possible exception of the loaning out of balances, does not deal with questions of policy?—In connexion with the funds he now does, but subject to those exceptions it is as you say.

11,601. And it is no part of the practice of the Office that all financial proposals should pass through the Accountant-General's hands?—No; occasionally an important question of account-keeping is involved in a financial proposal, and then it would be referred to the Accountant-General in the same way that there is special provision for that in the Treasury, I think. You have an officer of accounts who advises on such matters.

11,602. I am asking these questions because with a little experience of other Offices I am, perhaps, very liable to be misled into supposing that the same name connotes the same authority or duties?—I know great confusion arises from people assuming that an Accountant-General here does the same work as an Accountant-General in India, for example. There is a very striking difference.

11,603. I think you said that until two years ago the papers on finance commonly went from the Financial Secretary to the Permanent Under-Secretary, and that the Assistant Under-Secretary took very little part in financial business?—That, I think, was the case. Lord Kilbracken will confirm it, I think.

11,604. But that has been altered in recent years?—Yes. I had some observations to offer on that, but they would, perhaps, come at a later stage.

11,605. I want to get the facts first?—Yes.

11,606. I understand that when you were appointed Assistant Under-Secretary, you having had special experience in finance, and being so long Financial Secretary, continued to deal with financial matters?—Yes.

11,607. And accordingly at present the papers would go from the Financial Secretary to the Assistant Under-Secretary?—Yes.

11,608. And from him on through the course which you have already described?—Yes.

11,609. Now, as regards the Finance Committee, that is, I presume, nominated by the Secretary of State?—Yes.

11,610. How is it composed?—As a rule the Chairman of it is what we call our City Member. He was for some years Mr. Le Marchant, and then Lord Inchcape—Sir James Mackay, as he then was—and now Sir Felix Schuster.

11,611. Let me just ask a question upon that point to get the matter quite clear. The Chairman is nominated as such by the Secretary of State, is he not?—Yes.

11,612. He is not chosen by the Committee?—No, he is appointed by the Secretary of State. Then there is usually on the Finance Committee a Member of Council who has had general administrative experience; he would be usually a retired member of the Indian Civil Service. There is also, as a rule, a military man, because naturally in all Government finance military expenditure plays a very large part. At the present time, for that reason, General Sir Charles Egerton is a member of the Finance Committee. It is also customary, and certainly very convenient, that one of the members of the Finance Committee should be a Member of Council who is also a Member of the Public Works Committee, I think that would almost explain itself: the public works business is so closely connected with financial business that it is well to have one member who is a link between the two Committees. That, I should say, is the normal organisation of the Finance Committee, but it varies a little. At one time, for example, quite recently, we had two Members of Council of general administrative experience; there was not only Sir Steyning Edgerley, to whom I have just referred as the member of the Indian Civil Service, but also Sir Krishna Gupta (also a member of the Indian Civil Service) who has general administrative experience, and also may be held to look specially carefully after questions in which natives of India are interested. He, this year, is not a member of the Finance Committee; but he might be in any future year.

11,613. I think that gives us the outline of the organisation. Now I should like to ask your opinion about some details of it. I go back first of all to the Financial Secretary's own branch, the specialised branch of which he is the head. Does your experience lead you to think that he has in that branch assistance of the amount and of the character which he requires?—Yes; when I was Financial Secretary the then Permanent Under-Secretary was extremely generous when I made any request for additional assistance, and I had, and I think my successor feels that he has, quite as much in the way of staff as can reasonably be asked for. Of course, the quality of it depends upon the Civil Service competition system generally, and the quality on the whole is, I think, exceedingly good.

11,614. I presume I may take it that the civil servants who enter the India Office are very much of the same class as those with whom I have become familiar in other offices?—Yes.

11,615. And that on entry men posted to your branch would probably have no special experience of financial affairs, but they would acquire that experience in the office?—Quite so. Of course many of them would have had an interest in the study of economics during their University days.

11,616. Then we come to the Financial Secretary, on whom, I think, from what you have said, a large weight of responsibility must rest for the proper preparation of papers for the consideration of the higher authorities?—Yes.

11,617. Has he time for that?—In the remarks which I mentioned that I should like to make, I wanted to set forth that he is under the normal organisation——

11,618. Let me interrupt you. If you like to read the paper which you have, by all means read it?—I think this a suitable moment, if I may.

11,619. Read any part which is relevant to your answer to my question?—"Speaking from my ex-"perience since 1902, I am quite sure that so far as "concerns the permanent establishment the normal "financial organisation of the India Office"——

11,620. I do not know whether you would like to preface it—I think you had better—by the paragraph which you put at the top of the paper?—I should have preferred to, but I thought you would like me to shorten it. If you will allow me, I will read it from the beginning.

11,621. Please read it?—"Lord Crewe has au-"thorised me to submit to the Commission such "observations regarding the financial organisation of "the India Office as are suggested to me by my "experience of the Financial Department. Under this "authority I should like to say something regarding "the permanent establishment. Questions relating to "the scheme for modifying the duties of the Council, "on which Lord Crewe spoke in the House of Lords "on the 31st July last, are beyond my province. "Speaking from my experience since 1902, when I "became Financial Secretary, I am quite sure that, so "far as concerns the permanent establishment, the "normal financial organisation of the India Office (as "distinguished from that which exists, almost acci-"dentally, at the present time) fails to provide as "adequately as might be done for the efficient con-"duct of business. I am also quite sure that the "defect can be easily remedied. To make my meaning "clear, I should explain how the normal organisation "differs from that which happens to exist at the "present moment."

11,622. You have described the general organisation, and I understand that the difference which exists at the present moment really lies in the fact which my examination has elicited, that the late Financial Secretary is now Assistant Under-Secretary, and having special knowledge of finance he continues to aid in the work of finance?—Yes. It might perhaps be put in a less personal way if I said that instead of there being one official who is primarily responsible for financial work there are two; that is to say, the numerical strength has gone up 100 per cent.

11,623. I think you had better go on with your paper from the words "Normally the duties of the latter"?—Would you allow me to go on from where I left off?

11,624. Yes, if you like?—"The general arrange-"ment of the permanent staff, consisting of nine

" departments and two higher officials (of whom one is " the Permanent Under-Secretary of State, the other " the Assistant Under-Secretary of State and Clerk to " the Council), is explained in the memorandum* that I " have submitted on organisation and procedure. Nor- " mally the duties of the latter of these officials are " dignified but not of very great importance for the " disposal of business; and the main work of super- " vision is done by the Permanent Under-Secretary of " State. He may be familiar or unfamiliar with " finance. Even if he is familiar with it, the time " that he can give to financial work, when supervising " practically all departments, is limited; so that such " work, so far as done by the permanent staff, tends " to fall normally on the Financial Secretary and his " subordinates," with the exception of the work done by the Accountant-General, as you elicited. " This " means that the burden falls almost entirely on one " man and his staff, since as a rule the Finance Com- " mittee and the Council participate in the work only " when questions are laid before them at a stage when " they are ripe for decision. The burden is heavier " than one man should bear. He may have to deal " with large questions when jaded and pressed with " conflicting duties; he cannot attempt to keep up as " he should his general financial and economic know- " ledge; he is likely to break down at intervals from " overwork. These are the defects of the normal " organisation." The organisation which exists at the moment is one about which I have given full information, I think, and it seems to me to be a much better one, " since it relieves the Permanent Under-Secretary " and the Financial Secretary and, by doubling the " number of responsible persons charged with " financial work, increases the chance that it will be " well done. This present organisation, as I have " indicated, is different from the normal one. It " originated in the fact that Sir Richmond Ritchie, the " late Permanent Under-Secretary, proposed its intro- " duction in 1911, when Mr. Campbell, my prede- " cessor, died. But for his untimely death the present " organisation would not be in existence; and there is " nothing to secure its permanence." That is a criti- cism of the present. Now shall I go on and read the suggestion that I make?

11,625. Please do?—" The suggestion that I " venture to make is that the organisation of the " India Office, so far as concerns the higher members " of the permanent staff, should be based on the " recognition of the fact that the work of the Office as " a whole falls roughly into two halves, the one " administrative and general, the other (including the " work of the Financial, Public Works, Accountant- " General's and Stores Departments) of a business " nature. The recognition of this would naturally " involve that one of the two higher members of the " permanent staff should be regularly charged with " the supervision of the financial or business work of " the office, and chosen as being qualified for this duty. " Such a scheme would correspond roughly to the " practice that has been in force during the last two " and half years. If, which is what my experience " suggests as desirable, the present practice were de- " finitely recognised and made permanent, certain " minor changes of organisation would naturally " follow, but, though such changes are of some practical " importance, it is scarcely worth while to take up " the time of the Commission by going into them." Then I have a further remark as to how far what I have said would apply in the event of a large scheme being introduced for the reorganisation of the Council. Shall I read that?

11,626. Yes, please make that observation?—" What I have said is, of course, the outcome of " experience under the Council as now organised " and working through committees. It would be " equally valid, in my opinion, under a scheme in " which the connexion of Council with the permanent " staff was maintained through individual members " of Council instead of through committees, provided " that the tenure of office of a member of Council " were limited to seven years, as now, or to a " shorter period, but if the Financial Member of " Council under any new scheme held office on the " same tenure as a permanent official, the need for " the arrangement that I have sketched would be " much less, as some at least of the duties that I " have mentioned as those of one of the higher " members of the permanent staff might then be " discharged by the Financial Member of Council," who would really be a permanent official, and scarcely to be distinguished from any other permanent official of equal status.

11,627. I understand from what you have said that I am not to look to you for information as to Lord Crewe's scheme of reorganisation?—No. Sir Thomas Holderness will speak about that.

11,628. Then I set that on one side, merely noting your opinion that the suggestion which you have made is equally applicable to such a reformed scheme as to the existing scheme?—Yes, provided that the tenure of the Member of Council under the reformed scheme is a short tenure—a definitely limited tenure.

11,629. Having asked about the organisation of the Finance Department and about the duties of the Financial Secretary and the Assistant Under-Secretary, I now come up to the Committee again. Do I understand that it is the practice that every Member of the Committee must be a Member of Council?—Yes; the Committee is a Committee of the Council.

11,630. Is it a statutory obligation that the Members of the Committee should be Members of the Council?—What the Statute provides is that the Secretary of State may, if he so wishes, divide the Council into Committees for the more convenient conduct of business, and the Finance Committee comes into existence through the exercise by the Secretary of State of that power.

11,631. On the composition of the Committee as described to me by you, one question naturally occurs to my mind. I put it to you, but if you consider it outside your province to answer it I shall take your reply, and I shall put the question to Sir Thomas Holderness. I do not observe that the constitution as described by you has actually provided for any repre- sentation of Indian financial experience on the Committee of the Council in recent years?—No; the practice varies. For some years there was a Member—in fact, at one time there was more than one Member—possessing experience either of finance or commerce gained in India. At one time there was Sir James Westland, the late Finance Member of the Governor-General's Council. When he died, Mr. Finlay, who had been Financial Secretary in India, was appointed a Member of the Council; and then, in addition, there have been such men as Mr. Robert Hardie, who occupied in the Bank of Bengal a position similar to that which Sir James Begbie occupies in the Bank of Bombay. Then Lord Inchcape, whom I think I mentioned as the City Member, would perhaps have been more properly described as a Member recommended in the first instance for appointment on account of his experience in India. I think he was 20 years in India, and he was a very prominent member of the Indian mercantile community. Of course, in his later years, because he was a bank director, we got into the way of regarding him as a City Member, but perhaps it was not quite appropriate to describe him so.

11,632. He combined more than one qualification?—Yes.

11,633. But some years ago there used to be on the Committee a member with administrative ex- perience, and there used to be there an unofficial member with Indian financial experience?—Yes, certainly; when Mr. Finlay and Sir James Mackay, as he then was, were together on the Committee, as they were, I think, for some years, what you describe was the case. I do not think it has been a regular rule, but it has sometimes been the case.

11,634. (*Lord Kilbracken.*) As a matter of fact, have not both the unofficial Indians and the official Indians been represented on the Committee for thirty years until just the other day?—I do not think so. When I first came to the India Office, the one member

* App. XXXIV., p. 687.

of the Finance Committee who had financial or commercial experience in India was Mr. Robert Hardie. I do not think there was anyone corresponding to Sir James Westland or Mr. Finlay; I mean there was no one who had held high office in the Government in the Financial Department. At least, that is my recollection, and I think yours must confirm it.

11,635. I cannot remember the succession, but I remember that we had two or three ex-Finance Members of the Council. When I first came to the India Office, Mr. Drummond and Sir William Muir, for example?—My recollection, and I think it can easily be confirmed, is this: There was for a time Sir John Strachey, who had been a Finance Member of Council. When he retired there was an interval of some years before a similar member, in the person of Sir James Westland, was appointed.

11,636. But there was always General Strachey?—No, General Strachey had retired before I joined the India Office. It is possible that the interval between Sir John Strachey and Sir James Westland's appointment was smaller than I think, but if there is an India Office list available, I can easily verify that. (*Same handed to witness.*) This is what I was thinking of: Sir John Strachey left the Council in 1895; then Sir James Westland was appointed to the Council in 1899; and I feel sure that I am right in saying that between 1895 and 1899 there was no one who had that special experience to which you are referring.

11,637. (*Chairman.*) Do you mean that during that period there was no one with Indian financial administrative experience?—Gained in the Financial Department of the Government of India?

11,638. Yes?—Yes, that is what I mean, and I think I am correct.

11,639. Was there during that period, when administrative financial experience gained in the Financial Department of the Government of India was lacking a representative of the lay financial opinion, the non-official financial opinion, of India?—Yes, during the earlier part of that period Mr. Hardie, whom I have mentioned, was on the Council, and then I think it was about the time when Mr. Hardie retired that Sir James Westland was appointed.

11,640. Do you know whether there was any special reason for dropping the representation of Indian financial opinion, whether official or unofficial, in recent years?—I recollect that on one occasion of a vacancy occurring the Secretary of State or the permanent Under-Secretary at the time, did me the honour of consulting me, and we tried to think of a suitable man for the appointment having that particular experience. It so happened that the best men who had served in the Financial Department in India had gone to other positions in India, from which it would have been undesirable to take them away, and there was no one who could be thought of; and at the present moment if one wanted to choose anyone with recent Indian experience of the kind that you have mentioned who is generally recognised to be very well qualified, it would be no easy task.

11,641. (*Lord Kilbracken.*) As to the non-official Member, there has been a continuous succession of non-official Indians on the Council from about the year 1880, if not earlier, until 1911. The Chairman's question might equally refer to that?—Yes. I understand that the Chairman's question referred to both kinds, and that he included among the qualifications recent experience. I should, for example, exclude Sir Ernest Cable, who has had a long commercial experience of India, because his regular residence in India ceased some time ago.

11,642. (*Chairman.*) You must put the Members of the Commission out of your mind?—I think, certainly, there was no one who was marked out by his repute and position in the way that Sir James Mackay was marked out when he was chosen.

11,643. Would it not appear to you an anomaly that on the Finance Committee of the Council—if I correctly describe it as the Finance Committee?—Yes——

11,644. —there should be almost as a matter of course a representative of Indian army experience and of public works experience, but that on the Finance Committee there should not necessarily be any representative of Indian financial experience, whether official or unofficial?—Yes, I think it is an anomaly. I should like to guard myself by saying that I do not think it is a very harmful anomaly so far as concerns the efficiency of the work done. I think that its disadvantages are of a somewhat different kind.

11,645. As regards the work done, I presume that if you were in doubt as to how you should advise the Secretary of State on a particular matter which concerned the management of Indian finance on this side you could always have recourse to the Chairman of the Finance Committee and talk the matter over with him before you wrote upon the paper?—Yes, or with any other Member of the Committee, or indeed, of the Council, or with any of one's colleagues in the India Office.

11,646. Suppose you were doubtful on the Indian side, was there anybody to whom you could go under those circumstances?—There would be no individual with that particular kind of experience. On the other hand, the amount of written experience which the India Office contains is enormous, and the number of individuals who are extremely familiar with the written experience is quite satisfactory. I think I may say that there is no important subject of Indian Finance on which we have not the considered views of the Government of India, which have come to us in the course of the continual discussion which is going on.

11,647. I suppose even the Government of India sometimes changes its views. It would not always care to be represented by its opinions of five years ago?—I was coming on to that. In addition to that, when we are considering any important question, we are in the fullest communication with the Government of India all the time.

11,648. I should like you to develop that a little more. Do you refer entirely to official communications and despatches passing backwards and forwards, or, when you speak of "the fullest communication with the Government of India," do you include semi-official means of communication?—Lord Kilbracken always told us, and I think with perfect correctness, that there was no such thing as a semi-official communication. A communication is either official or non-official. That is the doctrine in which I was brought up, and I refer to communications official and private. At most times there is a considerable flow of private communications to and fro, but in dealing with important matters one very often has to rely on the official communications, merely because it is very unusual to telegraph privately. If you are going to get the latest views or information by telegram, the telegram is almost necessarily an official telegram, but a good deal in the way of explanation and suggestion comes home and goes out in the form of private letters.

11,649. Let me ask you your general experience. Taking your general experience as Financial Secretary, and looking back on it, do you think you suffered often from failing to understand what was in the mind of the Indian Government? That is a difficulty which must be present to anyone who has had to arrange business with people at a great distance by formal correspondence or by telegrams. However clear you try to make your despatch or your telegram, you do not always make your meaning perfectly plain to a correspondent several thousand miles off?—I do not think that there is any appreciable amount of trouble in that way; and perhaps a way of proving it is this. It often happens that when a subject has been the matter of discussion, or even controversy, between the Secretary of State and the Government of India, one of the high officers of the Financial Department of the Government of India will come home on leave, and look in on me, and we talk out the subject of our differences. I sometimes find that our differences remain unresolved at the end of the discussion, but I do not think that I ever found that in any important matter they were due to that cause which you men-

tioned, viz.: failure to understand what was in one another's mind.

11,650. I think I only want to ask one other question. I understand from what you and the other witnesses have told us that the preparation of the Indian budget is a matter of very careful joint consideration by the Government of India and the Secretary of State in Council at home?—I should like to explain in what sense it is joint consideration. So far as concerns the preparation of the estimates of what existing sources of revenue will yield, that is entirely the work of the Government of India, or almost entirely. When we come to proposals for imposing or remitting taxation, then the course is that the Government of India make their proposals to the Secretary of State, and then he, in Council, passes his decision on them; and he, of course, is necessarily responsible for the drawing up of the details of capital expenditure and of the way in which the money required for capital expenditure shall be borrowed in England, if the English market is to be the source from which the money is to be obtained.

11,651. Before the Indian budget is introduced in India, the relative shares of capital expenditure—what money can be provided out of Indian revenue, and what sums must be borrowed in London, or paid off in London—have, I understand, been discussed between the Indian and the Home Government?—Yes, very fully discussed.

11,652. If in the course of the year the revenue receipts should turn out much more favourable than was anticipated at that period, is the London programme ever the subject of reconsideration with the Indian Government? To make my meaning plain I will add a little more to my question. Suppose at the beginning of the year the Indian Government had said: "We estimate for a revenue of five millions greater," that would have affected the proposals which the Secretary of State would have made for borrowing or paying off debt at home?—Yes.

11,653. Supposing they did not foresee the 5 millions at the beginning of the year, but that when half of the year had gone by they had good reason to think that their estimate would be exceeded by that sum, would communications then be re-opened with the Secretary of State as to the London programme?—Not in that form, but the same effect would be produced in this way, that after the summer holiday we should ordinarily telegraph to the Government of India when the busy season is about to begin and when the result of the monsoon is fairly well known, asking them to revise their estimate of the amounts that could be remitted home in the form of Council bills, because it is that rather perhaps than the total revenue which affects the possibility of reducing the loans to be issued in England.

11,654. Of reducing the loans or increasing the programme?—Quite so, of reducing the loans or increasing the programme. Then on the basis of that information the Secretary of State might decide, and has decided at times, that a particular loan which he contemplated issuing was not necessary and should not be issued, or that some India bills which he was going to renew should instead be paid off; and occasionally it has happened, as you mentioned, that the Government of India have said: "Our revenue is doing much "better, we can remit home more than we expected, "and we propose that a million sterling extra shall be "added to the railway programme to provide wagons "or engines, or something of that kind." That kind of communication is a regular part of our business.

11,655. Mr. Mitra, who gave us very interesting evidence of the budget practice in India, indicated to us, I think, that in his belief information of any change of the kind would necessarily be supplied to the home Government in returns which would be forwarded in the normal course, but that no opportunity need necessarily be given—I will not say that he put it so high as that no opportunity was ever given, but that no opportunity need necessarily be given—to the Indian Government to make any suggestion for a revision of the programme in view of the altered circumstances?—No, I do not think that the specific question would be put to the Government of India: "Do you propose, "say, that the East India Railway debenture loan of "2 millions sterling which is in the budget should be "withdrawn or should be reduced to 1 million sterling"; and I think the reason is very clear, that supposing the Secretary of State is well informed about any addition that he may expect to his resources, he is on the whole in a much better position to decide what use to make of the addition than the Government of India. You see, they are in no touch with the London investment market, so that usually they have taken, and I think very properly, the view that they are not very keen on interfering with matters about which they cannot fully inform themselves.

11,656. I gather that before the commencement of the year their opinion would be taken, though, no doubt, in the last resort, if it came to that, the authority of the Secretary of State would have prevailed, and his knowledge, and the knowledge at his disposal, of London money market conditions would be the governing feature; but still, before the year began, it would be the practice to talk these matters over as between the authorities in India and the authorities here?—May I explain what we are doing this year, because a concrete case is always very helpful. Recently the Government of India telegraphed home to the Secretary of State saying that they proposed to draw up for the coming year, 1914–15, a railway programme of various specific amounts, provided the Secretary of State could undertake the responsibility of borrowing such and such an amount in London towards the carrying out of it. After much consideration the Secretary of State decided that he would take that responsibility, and the Government of India were informed accordingly that their budget arrangements could be drawn up on that basis. Now, it is not the intention to ask the Government of India about the details of the borrowing programme by which the sum of money to be raised in London is to be provided. It would give the Secretary of State no useful information, it would bother the Government of India, it would waste their time, and I cannot see anything that could be gained, when we had once settled the important question of the amount, by discussing the details.

11,657. Now let me put a little different supposition to you. I appreciate what you say as to the Secretary of State's responsibility and greater knowledge in these matters, but suppose the Secretary of State had been forced to reply: "I am unable to undertake to "borrow the X millions which you suggest, I can only "borrow X minus Y, and your programme must "therefore be curtailed accordingly"; and suppose that at the end of the summer holidays next year the Indian Government found their revenue coming in much better than they had expected, and that the millions which the Secretary of State had not been able to raise in London were available in India, would there not be communication between the two Governments as to what should be done with those millions, or would the Secretary of State draw them to London without communication with India?—I think I indicated, in reply to an earlier question, that in the ordinary course I think they would come to London, but at the same time the Government of India would have an opportunity of saying, as they have in at least two years within my recollection said: "We recommend that so much extra money shall be spent on "railways"—it is usually railways, I may say; perhaps you think I have mentioned railways rather frequently, but they are very important in our financial arrangements. The Government of India would say: "We "recommend that so much extra should be spent on "railways," and the Secretary of State would usually agree. I think the last occasion when that happened was in 1912. The details of it are given in some of the statements which I have already submitted.

11,658. (*Lord Faber.*) I only want to ask one question, but it touches very nearly the questions put to you by the Chairman just now; do the delays arising from Government methods, and more or less unavoidable delays because of the distance of India from home, lead to the impossibility of making changes

in the coming budget, say in the last three months of the financial year, although such changes may be very advisable because of the then commercial outlook?—No, I think that if the Government of India find that in the last three months of the year they are doing much better than they expected to be able to do, or, indeed, that they are doing much worse, there is no reason why the information should not reach the Secretary of State on the same day upon which it reaches the Finance Department of the Government of India, and in the normal course anything of importance in that way would be telegraphed home. Of course, it might happen that just before the Government of India had telegraphed home that they had an extra million which they could count upon, the Secretary of State had issued a loan in order to gain that million, which he did not expect to receive through the Government of India, but that is incidental, you may say, to all human affairs, that you may do a thing which, if you had waited three days or three hours longer, you would not have done.

11,659. (*Mr. Gladstone.*) In regard to the financial organisation of the India Office, you did not make any reference to any Audit Department. Is there an audit officer?—Yes. I do not know whether you have read this memorandum which I handed in called "Memorandum on the Financial Organisation and Procedure of the India Office" (App. XXXIV., p. 687). I briefly summarise there the position of the auditor, who is appointed in a way provided by the Act, and has the position of authority and comparative irremovability that an auditor ought to have. His tenure is much the same as that of the Comptroller and Auditor-General in the United Kingdom.

11,660. (*Mr. Keynes.*) I think your only serious criticism of the existing internal organisation of the India Office was that the Financial Secretary was apt to be overburdened, and to have too little freedom from routine work?—Yes, under the normal organisation.

11,661. And you suggested as a solution for that that one of the two senior permanent officials should always be a person of some financial experience in the office?—Financial experience or financial aptitude. I should not like to narrow it down too much, but he ought to be a man who could properly be appointed to a post involving financial duties.

11,662. Do you think that it would be possible to go somewhat further in lightening the Financial Secretary's burdens by splitting his office into two and having one official for what I may describe as technical financial work and one official for treasury control, that is, criticisms of proposals of spending departments and correspondence about expenditure with other offices in England?—That idea is very attractive to me. Whether the two officers would be of equal status or whether one should be called the Deputy Financial Secretary, with responsibility for doing certain work without consulting the Financial Secretary, I do not know. I daresay that the better method is what you have suggested, that there should be two Financial Secretaries, one technical and one administrative. Certainly that kind of relief I think would be advantageous. The desirability of it is illustrated by some papers which you probably have seen—they have been sent to the Royal Commission—on the charges for currency notes. I do not know whether they have been circulated. For some years we went on paying at certain rates for the currency notes supplied to us by the Bank of England, and we were paying too much, and I think the fact that we went on paying without scrutinising the basis of the charge was probably due to the Financial Secretary having too much to do. I think if he had had more leisure he would some years ago have looked into the question whether the payment was suitable; and the amount involved there is very large. The fact that that kind of extra work would be done, and well done, through the organisation which you propose, commends the idea to me specially.

11,663. Do you think that the work which I have described as treasury control, together with cognate duties, is enough to occupy one secretary?—That is hard to say. I think that he would not have a post nearly as onerous as that of the Financial Secretary now is. Whether he would be underworked I cannot say until experience has been gained.

11,664. I suppose that is a type of work which can be done by any competent civil servant without special financial experience?—I think so. Of course, one would want a certain spontaneous activity on his part. I mean his function would be largely to see things that were not quite obvious, and to think of things which a man with less financial acumen might not think of.

11,665. Whether or not the officer who was responsible for treasury control would have enough to do, do you think that the officer who was concerned with technical finance would have too great or too little leisure?—Of course, I have a very high standard of the number of hours that the Financial Secretary ought to work. Judged by my standard, I should say that the technical Financial Secretary would have rather an easy time, but, on the other hand, I attach much importance to this: he ought not to be too overburdened, because he ought to be able to read economic literature to some extent and to know what is going on both in this country and in other countries. One of the gravest consequences, I think, of the system under which I worked was that when I became Financial Secretary I practically ceased to read economic literature, because I had no time; I had read it assiduously until then; so that I think a certain amount of leisure is desirable.

11,666. It is your opinion, then, that the growth of technical financial business has been so great in recent years that it might be worth considering whether it ought not to be separated from the treasury control work with which it has actually become associated in this Office?—Yes, I think it is well worth considering, and, as far as I can see, the arguments are on the whole in favour of the separation.

11,667. I want to ask a few questions now which perhaps would be more properly addressed to Sir Thomas Holderness. If that is so, no doubt either he or you will interrupt me. Is it your opinion that the Finance Department can do without the variety of experience and of advice which they obtain under the Committee system?—They could do without it, but I am much impressed by the advantage which they obtain from the variety of experience that the Committee system gives them. It is not only a variety of experience; it is a variety of standpoint. Suppose that we are dealing perhaps with some question of re-organising a big service; take the Public Works Department. There may be someone on the Finance Committee who is very familiar with public works, and is very keen on efficiency, perhaps it may be efficiency at any cost; there is a financial member who says, "We must not pay too heavily for efficiency"; there is perhaps a native of India like Sir Krishna Gupta, who says, "Your scheme is "very well up to a point, but it does not provide "sufficiently for bringing Indians into the service of "Government; you want to be more liberal in this, "that, or the other way for that purpose." I have always found that having these different points put and considered by a Committee as one body has been very advantageous indeed. Of course, I do not wish to be understood as in any way criticising Lord Crewe's scheme, which would be far beyond my province, and very unconstitutional, but since the question is put I ought, I think, to give my experience of the advantages of the Committee system.

11,668. If a scheme were adopted by which the number of the Council was reduced and the Committee system abolished, does it follow that the Financial Committee need be altogether destroyed? Could there not be some kind of committee, not all the members of which were members of Council?—I think that is possible. It would introduce an unsymmetrical element into Lord Crewe's scheme, as I understand it, but, of course, symmetry is not everything.

11,669. If Committees of Council were abolished, would you be in favour of retaining some sort of Financial Committee partly made up of persons who are not members of Council?—Yes, I should like big financial questions to be considered by a committee

of some sort before they go to the meeting of Council to be finally decided on, and I think there is a good deal to be said for having persons who are not members of Council on the Committee. At present I might explain—perhaps I did not make this clear—that when the Finance Committee sit, there are round the table Members of Council and the Financial Secretary and Sir Thomas Holderness and myself; Sir Thomas Holderness and myself and the Financial Secretary have no vote, but for all other purposes I think I may say we are almost equivalent to Members of the Committee; I mean we speak quite freely. Of course, it is by the courtesy of the Committee that we can be heard at all, but they have never failed to extend that courtesy to us.

11,670. (*Mr. Gillan.*) May I ask one question? As far as the departmental views are concerned to which you referred—I mean the views of the Public Works Department or any special Indian Department—those could be obtained, even if you had not a Committee, by circulation among the Departments, could they not?—Yes, they could be obtained on paper.

11,671. Or by a meeting of the officials concerned in the different departments?—Yes, but I am impressed by my experience of the India Office with the advantage of a meeting of the Committee where the different views are expressed and different standpoints are presented by various Members of the Committee, and there is the feeling that the Committee at one time or other must come to a decision after giving due consideration to those different views and standpoints.

11,672. (*Mr. Keynes.*) Assuming that some access for the Financial Department to City advice is advisable, do you think that that advice ought necessarily to be obtained from someone who is a Member of the Council?—No, I do not think so. I think if you had asked me that question say twelve years ago I should have answered in the affirmative, because it so happened that there was no one then in the India Office who had very much experience of financial work of the kind to which you are specially referring, and if the India Office had had to consult an eminent man outside there would have been on the India Office side no one who was a very competent intermediary; but now for the last twelve years several of us in the India Office have had a very great deal to do with this kind of City work, and I think there are several of us who are quite competent to go to some eminent City person and ask his advice and to judge how far it ought to be followed and how far not.

11,673. Is the need for City advice more or less continuous, or is it a thing which arises on comparatively rare occasions, such as when you are floating a loan?—I should say that it is continuous. I might explain what I mean by that. We consider perhaps in the autumn what sort of railway programme the Secretary of State will sanction; I mean we consider the kind of telegram to which I referred in answer to the Chairman (question 11,656), and we have to form an opinion whether we shall be able to borrow next year X million or Y million pounds. At that time one wants to be very well informed about City matters. Then perhaps a railway programme is sanctioned, and practically during all the early parts of the year we are looking about for a good opportunity of floating a loan; we have to consider terms, amount, and form, and so on; and it is really only for a few months that one could safely, as it were, wash out of one's memory all that one has learnt of City affairs.

11,674. An outsider, then, to whom resort was made occasionally, would not meet the purpose?—It depends who is the person to whom the resort is made. Suppose that we had in the India Office a permanent official who, not being a City man, yet knew a good deal about City affairs, and then the Secretary of State said to him, "Well, we shall have to issue some loans; before "deciding how much, go and ask such and such an "eminent financier, and report to me what his opinion "is, and what is the value of his opinion," and that from time to time as other questions came up, the opinion of the eminent outside financier was obtained through the supposed capable official: under a system of that kind one would do extremely well, provided, of course, one could trust the advice which was given by the outside man. There is no reason that the eminent City man should be inside the India Office provided the channel of communication is suitable.

11,675. Would it be convenient, do you think, for the India Office to be consulting in this confidential way some person who had no formal position, but who was just selected on the authority of some official inside the office?—I think that one could consult people who, without being inside the India Office, had formal positions. Supposing we were going to issue a loan next week (which it is not our intention to do) we should go to the Bank of England, probably, and the Governor of the Bank of England would probably summon into his room the chief member of the firm of Government brokers—you know the firm [Messrs. Mullens, Marshall & Co.]; and probably so long as we have a broker of our own, that is until he is swept away by a State Bank, we should continue, as at present, to ask a member of the firm of our brokers to attend, and then perhaps Mr. Newmarch, I, the Governor of the Bank, and these two leading brokers would discuss what was to be done. That is the way in which we should get advice. I mention these particular firms in order to answer your point; it is not irresponsible advice.

11,676. I had not understood that that was the kind of thing you were contemplating. You do think, on the whole, then, that the kind of advice which is now got from the City Member of the Council of India could be got through other channels?—Do you mean regarding the issue of loans, or are you putting your question in the widest possible sense?

11,677. I put my question more widely than that?—The one thing for which I think the City Member, under our present arrangement, is indispensable is the lending of loans from our balances. I think it would be very difficult, if we are to grant them at all, to grant them otherwise than through a broker, and if there is to be supervision exercised over the broker, it would be very difficult to exercise it save through a City Member of the Council of India. I need scarcely say that I am quite incompetent to judge whether a broker ought to have got one-eighth per cent. more on the loans which he granted, or whether such and such a firm ought to be admitted on to the List; and I never shall be competent; and if I did acquire the knowledge it would, on the whole be a great waste of my time.

11,678. (*Lord Kilbracken.*) And the sale of Council Bills?—I think we could do that without him. I may say, if Sir Thomas Holderness does not mind, that I venture to differ a little from one remark only in his note. I think we could sell Council Bills very conveniently without the City Member. I think Sir Thomas Holderness took the opposite view—that the City Member was almost necessary for that.

11,679. (*Mr. Keynes.*) I should like to ask two questions on a different subject, the subject of intercourse with India. Sir Guy Fleetwood Wilson, whom we heard yesterday, raised two points. The first one was that he found himself liable to be upset in his Budget arrangements by criticism from the India Office, very much at the last moment. Is the explanation of that the short period which elapses between the framing of the estimate and the date at which the Budget is normally introduced into the Legislative Council, or is there some other explanation? I might, perhaps, expand my question. The reason I raise this is that when we have been discussing Budget dates it has been brought to our notice that the Government of India are great financial purists in the matter of the date at which they introduce the Budget, and that, therefore, there is great hurry at the last moment?—Yes.

11,680. I wondered whether this short period was, possibly, the explanation of the late date at which criticisms from the India Office reach the Financial Member?—Perhaps I might explain what happened on the one occasion within my recollection that corresponds to what he describes. I should like to mention the course which was followed. In 1910 it is quite true that the proposals for the Budget of 1910–11 which were made

by the Government were not entirely accepted by the Secretary of State; they were proposals involving, in an acute form, questions of the very greatest importance, and the Secretary of State, having considered them, found that there were some things put before him to which he could not agree. I remember that on that occasion everyone at the India Office took the very greatest possible care to let the Government of India have the Secretary of State's decision as soon as it could be arranged. Every one of us, from Lord Morley downwards, thought that we ought not to put the Government of India to any inconvenience which could possibly be avoided in an anxious time when they had to prepare a Budget.

11,681. If I may interrupt, I think this is not quite an answer to my question. I was asking merely whether you thought the existing system of introducing the Budget at the beginning of the financial year was responsible for this particular inconvenience to which I refer. I was not going further than that?—If you ask that question, then I have to answer that whenever you introduce a Budget containing very important proposals, your proposals are based mainly on the facts of the immediate time. I mean, supposing you introduced your Budget in October instead of in March, then you would be mainly guided by the facts of July and the following months.

11,682. I am not speaking so much of the date of the Budget, although it was in connection with that, but I am speaking of the practice (in which the Government of India differs from the Government of this country), of introducing their Budget into the Legislative Council, not at the date which is most convenient to them administratively, but at the very first possible date, very nearly at the beginning of the financial year. You cannot begin making your Budget until you know what your estimates are; you cannot know what they are until very near the beginning of the new financial year; and therefore if you introduce your statement very early in the new financial year you must necessarily have a very short interval in which to consider your Budget proposals?—The only advantage of putting off your Budget, say to a time some weeks after the beginning of the financial year is if during those weeks no important change is likely to take place; but if at any time before you actually introduce your Budget changes are likely to take place in the general situation, and you may have to modify your Budget accordingly, then it is inevitable that you make your final proposals under pressure of time.

11,683. I am now suggesting that there might be an advantage in postponing the date in order that there might be full time for the discussion of new proposals for taxation or for the remission of taxation between the Government of India and the Secretary of State?—Yes, but supposing that, while the discussion was going on in a leisurely way, the circumstances altered considerably, then the final decision would still be reached under pressure of time. I think that the only advantage which can be gained to mitigate inconvenience is, if possible, to choose for the period of consideration such a season of the year as is not likely to bring about great changes in general conditions.

11,684. I am considering the case in which there is no reason to anticipate changes in conditions, but there is reason to anticipate a possible difference of opinion between the Secretary of State and the Government of India. At present that difference of opinion has to be got over in a very short period?—I do not think so. If I may revert to this case in 1910, I remember that very well. We got from the Government of India proposals, I think, in January 1910, and we had had an advance statement sent privately or demi-officially, so that we were able to begin the consideration of what had been put forward. The Budget had to be published, I think, towards the end of February. I think we had, if my recollection serves me, about seven weeks in which to discuss what had to be discussed, and, of course, all the communications after the first were naturally by telegram; and when special meetings of the Council could be called so as to expedite matters, and so as not to delay the approving of a telegram until the normal weekly meeting, all that was done; so that I should very much doubt whether the pressure in the Finance Department of the Government of India was greater than the pressure to which the Treasury are accustomed when they are preparing their Budget.

11,685. The other point to which Sir Guy Fleetwood Wilson referred was a different one; he stated that the Viceroy and the Secretary of State were accustomed to have a large private correspondence, and that the Secretary in the Finance Department in India could communicate unofficially with the Secretary in the Finance Department here, but that the Finance Member was in an isolated position, and had no corresponding person in this Office with whom he could keep in close touch?—Did he say that he did not correspond with anyone in this Office as a regular practice?

11,686. I could not quote his exact words.—Did he say there was no person in this Office with whom it was the regular practice of the Finance Member of the Governor-General's Council to carry on a correspondence?

(*Sir Ernest Cable.*) Yes, semi-official or private.

(*Chairman.*) I think that is the effect of his evidence. I have a transcript of it here. What he said he thought the Finance Minister needed was an *alter ego* in London with whom he could correspond?

(*Sir Ernest Cable.*) Semi-officially.

11,687. (*Chairman.*) I put the question to him: "So at the present time there is no recognised semi-"official machinery of communication"?—(*A.*) "The "only recognised channel is what is usually a weekly "letter which passes between the Secretary out there "and the Secretary here. As a rule, these letters "deal with matters of detail rather than with big "questions of principle, and you might have a "condition of affairs in which your Finance Minister "might not agree with his Secretary, in which case he "might want to know which view was taken at home, "and thereby avoid an impasse in India"; and later he corrected a phrase of mine about communicating unofficially, and said: "Demi-officially; I think that is the usual term." Then I said: "You want "to correspond demi-officially, then, to sound the "ground, or to gather information"?—(*A.*) And to "receive guidance.—(*Q.*) Subject always to the "supreme authority of the Viceroy in his own case? "—(*A.*) Certainly.—(*Q.*) And the Secretary of State in "the case of his correspondent, in the same kind of "way that the Permanent Under-Secretary at the War "Office or the Admiralty will write to the Permanent "Secretary at the Treasury and enquire, how would "such a proposal be viewed if his office were to make "it?—(*A.*) You have quite correctly interpreted my "views"?—I have listened to what you have read with great astonishment, because it seems to me to be most directly at variance with the practice which has existed in the India Office, certainly for the last thirty years. It was the practice of my predecessor, Sir Henry Waterfield, and of myself, and it is still the practice of Mr. Newmarch, my successor, to carry on a correspondence with the various Financial Members of the Governor-General's Council. We still have upstairs, in the Financial Department, a great deal of correspondence between Sir Henry Waterfield and such eminent men as Lord Cromer, Sir Auckland Colvin, and Sir David Barbour, which we read with great interest, and which was at one time very voluminous indeed. I do not know that my correspondence, when I was Financial Secretary, with the Financial Member of the Governor-General's Council, was quite so voluminous, but there was certainly a regular stream. Perhaps I would write eight or ten letters a year, and sometimes the opportunity of such communication was extremely valuable. I think I mentioned in my earlier examination that one very important change—I may give this as an illustration—in the management of the Gold Standard Reserve, the purchase of short-dated securities, instead of consols, was first made by the Secretary of State on a suggestion which Sir Edward Law

conveyed to me in a private letter; and just as Sir Edward Law wrote every now and then to me, and I to him, so Sir Edward Baker used occasionally to explain his views, and I would explain my views, or the views of the Secretary of State. Then I am very much surprised to hear that Sir Guy Fleetwood Wilson contemplated a difference of opinion between himself and his Secretary. Again and again I have received most valuable letters, more especially from Sir James Meston when he was Financial Secretary in India. He said: "The honourable member desires me to "write to you about" so and so.

11,688. Possibly I have not made Sir Guy Fleetwood Wilson's position clear by the extract which I read, but please take it from me that he expressed the greatest gratitude to the gentlemen who had occupied the position of Secretary in the Financial Department during the time that he was Financial Member of the council, and he carefully guarded himself against any thought that he was making a complaint against them. In the passage which I have read I think he only meant to say that it was possible under the system that differences might arise, but they had not arisen between him and his colleagues?—But then I think the understanding is that supposing the Financial Member in India holds one view and the Financial Secretary in India holds a different view, the Financial Secretary in India would certainly never write home to the India Office stating: My view is so and so. His duty and loyalty to his superior would prevent him from doing that. Then if the Financial Member wished to put unofficially before the India Office certain views he might either write himself, which has been a very usual practice, and in that case he would write to the Financial Secretary, or he might direct the Secretary to write a letter which, though written by the Secretary, would contain the views of the Member, which might be exactly opposite to those of the actual writer. I understand that that is the practice. Mr. Gillan, of course, has had experience, and can say whether I am right or not.

11,689. I gather from your answer that in your view there has always been free semi-official or demi-official and unofficial communication between those responsible for the finances in India and those in the Finance Department here at home?—The only exception that I would take is to your phrase "in your view"; it is not a matter of opinion, it is a matter of fact. There has been no obstacle to communication, and there has been a good deal of correspondence; and perhaps I may add here that sometimes I have wished to write to the Financial Member in India explaining this, that, or the other thing, but the burdensomeness of my duties has prevented me from writing on the mail day, and then a week has passed, and one has thought: "Well, one will leave it alone," but it is only that kind of obstacle which has existed.

(*Mr. Gillan.*) I think there is a circumstance which is not present to Mr. Abraham's mind in answering these questions. I think what Sir Guy Fleetwood Wilson laid stress on was that there is no recognised system of correspondence with the Financial Member. He would not probably deny that there is a practice of such correspondence, but you will remember he said that he practically asked that the system should be recognised when he went out to India, and the answer he got was a discouraging one, so that the practice was dropped; at least, that is as I understand the situation.

11,690. (*Chairman.*) In point of fact, I think Mr. Abrahams's evidence is that the practice continued?—The practice of correspondence, which, strictly speaking, is private correspondence, has continued for many years. Now I understand from what Mr. Gillan says that Sir Guy Fleetwood Wilson would like a certain recognition of it. I think, if I understand what Sir Guy means by it, that is scarcely possible. Correspondence, as I ventured to say before in another connection, must be either official or not official, and certainly no Secretary of State would allow himself and his Council to be committed even to half-approval of a particular course of action because a particular individual in the India Office happened to write to a particular individual in the Government of India and said: "This seems a very wise proposition"; it must all be of a non-committal and personal nature; and if the only difference between my statement of the facts and Sir Guy Fleetwood Wilson's statement is that he says no regular and official recognition is given to this unofficial correspondence, then our last difference is removed; I agree with that statement, and I say it is not given and coituld not be given.

11,691. You probably are aware that as between offices here in London it is not an unusual thing for the Permanent Under-Secretary or the head of a branch to come across, let us say, to the Treasury to inquire whether, if they put forward a proposal, it would be likely to be favourably received. They would go to their opposite number or to the Permanent Under-Secretary, as the case may be, and if there is any doubt, he will unofficially—or I should say informally, not unofficially—consult the Chancellor of the Exchequer or the head of his office. It is sometimes a great convenience, because there are proposals which he would not like formally to make and formally to have rejected. Very often the success of your request may depend upon the particular form the proposal takes, and it may be important to know which form would most commend the request to the office which has to grant it. That kind of informal communication constantly goes on between public offices in this country without in any way committing improperly the chiefs of the offices. No doubt they have to rely, but they do rely and can rely with perfect confidence, on the discretion of the permanent officials of their departments. Is there any regular means of communication by which the financial authorities of India can in that sort of informal way sound the ground and ascertain whether a proposal is likely to be acceptable before they formally put it forward with the risk that information about it may leak out in India, and that if, having been put forward and discussed in India, it is rejected, great harm is done then?—There is undoubtedly a channel of communication, namely, those private letters which I mentioned, but it is fair to say that it is not very often used for rather a simple reason. If the Government of India were to be told that such and such a proposal is likely to find favour with the Secretary of State, they would be told that to no good purpose, unless one had obtained the information of the Secretary of State and the Council. As a rule, the most convenient way of letting the Secretary of State and the Council form an opinion on the merits or demerits of the proposal is to put before them in its best possible form, that is to say, in its final form, a statement of the reasons of the Government of India for making the proposal; and at the time that they have completed their statement of the reasons there is nothing gained by not sending it forward officially except occasionally, as you have mentioned, for reasons of secrecy, which would always be respected, or occasionally that they may like to avoid rebuff. I do not think that often happens. Lord Kilbracken's experience is much longer than mine, but I can remember very few cases in which the Government of India have wished to send their statement unofficially first; but certainly there would not be the slightest difficulty if they did wish to do it.

11,692. (*Lord Kilbracken.*) The Chairman has referred to a practice which is common in this country, by which members of the different offices exchange views, exchange notes, or come across to the other office; but would it not be rather a different thing if those members, say two Permanent Under-Secretaries, were systematically to exchange a letter every week, or nearly every week, upon matters of policy at issue in their different departments? Would not that give rather a different complexion to the intercourse?—It depends on the nature of the letters. I mean, supposing the Permanent Under Secretary of one office said to the Permanent Under Secretary of another: "If you send in a proposal to do so and so, you may take it from me that it will be approved," then that

would be something certainly not suitable to our conditions, and I should say not suitable to the conditions of any Government office.

11,693. Perhaps I might explain that Sir Guy Fleetwood Wilson told the Commission yesterday that he had, when going out to India, proposed a systematic correspondence between himself in India and the Permanent Under Secretary of State in this country, and that he was discouraged, but furthermore, he said that after some experience in India—I forget how long—he had made another formal proposal to the then Under Secretary of State, Sir Richmond Ritchie, of a similar kind, and that it was distinctly declined. That shows that he intended something quite different from the informal correspondence which you have described?—I find it very hard to imagine what he really did intend, because either letters which you or Sir Richmond Ritchie might have written to him if the proposal had been accepted, would have been non-committal letters, only expressing your own views or suggestions—in which case they would have been much like the letters that I might have written, only they would have come from a person higher up in the official hierarchy—or they would have been authoritative, in which case you would have been taking on yourself, which I am sure you would have been very unwilling to do, some of the authority of the Secretary of State in Council.

11,694. But if Sir Guy Fleetwood Wilson, without making any formal proposal, had, after reaching India, written letters now and again to the Under Secretary of State, or anybody else in a responsible position in this office, do you not think that those letters would have been answered as a matter of course, and that whatever was really needed could have been done in that way?—Not only do I think it would have been done, but since he did me the honour of writing a great number of letters to me, I can say that I certainly answered them and gave him the most useful answers that I could; but it would no doubt have been more gratifying to him if, having regard to the relative positions which you and I occupied, he had been able to correspond with you instead of with me. As far as I can tell, that is the only improvement that he could have wished for on the system which actually prevailed.

11,695. (*Sir Shapurji Broacha.*) Do the Permanent Under Secretaries sit upon the Finance Committee?—They are not Members of the Committee, but they are present at the meetings.

11,696. They watch?—They not only watch, they take part in the discussion; or rather, I should say, he takes part in the discussion, because there is only one.

11,697. Suppose demi-official correspondence should come from someone in India in a very important position, I suppose the Under-Secretary could talk on those matters with the Secretary of State if it were a matter of policy, or some vast change of policy as to which his opinion was asked unofficially?—Yes.

11,698. He could?—Certainly, and he would.

11,699. Who decides the amount to be borrowed here, the Council or the Secretary of State?—The Secretary of State in Council, that is to say, the large decisions which are taken in the India Office are taken at meetings of the Council at which the Secretary of State presides and exercises very great powers; but the recommendation which comes before such a meeting is, as a rule, one made by the Finance Committee, and the Public Works Committee.

11,700. There are two native councillors here. Is either of them on the Finance Committee?—Sir Krishna Gupta was on the Finance Committee, I think, for about two years, and then in the ordinary course of changes he has ceased to be this year, but he has been put on another committee of great importance instead.

11,701. For the last few years the Indian loans have been under-written at a commission of 1 per cent. to the under-writers, I think?—Yes.

11,702. That is a deviation from the old rule of tendering them to the public?—Yes, it is necessary, and we had to adapt ourselves to present circumstances.

11,703. In a Government loan 1 per cent. commission to the takers of the loan would look very high. Do you not think that to a certain extent Indian credit is lowered by adopting the market ways and not the ways which prevailed before?—No, I can assure you that with the solitary exception of the British Government, every government, or everybody of very high standing, who issues a permanent loan has to underwrite it. Practically—I can leave out the word "practically"—all the Colonial Governments, however high their credit, when they issue a loan have to get it under-written, and for the most part they get it under-written through the same firm which takes part in our under-writing.

11,704. Do you know that the success of the China loan, the five-power loan, was owing to their not allowing it to be under-written?—In the case of a very special loan of that kind I daresay it would be so, and no doubt the attraction is that the people who actually subscribed would get every possible penny of advantage and profit.

11,705. But what caused the original practice to be departed from?—Simply that we felt that if we did not under-write our loans we should find one day that a loan was not subscribed and that the whole of the administration of at any rate the Public Works and Railway Departments of the Government of India was thrown into chaos because we had entered into very great commitments which we could not meet. Even in the days when it was our regular practice not to under-write we had a very serious failure of a loan once.

11,706. But I think in India it would be a permanent failure if the system were adopted?—You mean the system of underwriting?

11,707. No, in India if Indian loans were floated on that system of getting them underwritten I do not think next year they could be floated at all.

11,708. (*Lord Faber.*) May I ask one question about that? You know that the question of underwriting is quite a modern one?—I know.

11,709. There are two opinions about that, and the best opinion to-day is that you had better put out a loan of the class of an Indian loan without underwriting. The public now wait, because every time that an underwritten loan comes out the underwriters have to take it; the public do not apply then, and they wait until it falls to a discount, and then take it from the underwriters?—Yes. I do not know if the Commission wishes to go into this matter, but I should like to say that I personally have a rather strong view about whether we should underwrite loans or not. In any other branch of buying and selling the producer naturally sells to the wholesale buyer and then leaves it to the wholesale buyer to peddle out the produce to consumers in small amounts as their desire to get the product shows itself. Now, it has been a very paradoxical arrangement for many years that if a Government which has produced so many millions of Consols or India stock wants to sell them, instead of going in the normal way to a wholesale dealer, that is to say, to an underwriting firm, and selling to him, it has gone direct to the consumer and has hoped that the consumer will want to buy just at the moment when the producer wants to sell. This arrangement of selling through the wholesale dealer who can afford to hold the stock perhaps for three months, six months or even a year, besides being very much safer and more convenient for the issuing Government, is in accord with the normal practice of all other branches of business.

11,710. The producer only goes to the wholesale man because he cannot do anything else; it is so very difficult for him to get at the actual consumer. If he could, he would never look at the wholesale man?—I know. In former days there was such a demand for India stock that when we had produced some—I use the phrase in the way you will understand—there were a great number of people who wanted to buy 100*l.* worth, or 1,000*l.* worth, or 50,000*l.* worth, and we could deal direct without any middleman's profit with our own consumer. Now the appetite of the consumer is so jaded and uncertain that if we stake our arrangements for the year on the assumption that

at a certain day when we offer 5,000,000*l.* in the way of a loan there will be consumers bidding for it, we are liable to very grievous dangers.

11,711. (*Chairman.*) In effect, what you do is to pay a premium of insurance to guard against disaster?—You can either describe it in that way or as the middleman's profit for holding the commodity until the consumer is ready for it. I think either description is equally correct.

11,712. (*Lord Faber.*) The result is that the public dislike that system so much that the loan generally fails?—I know that in a certain sense it tends to make the loan fail, but it only does so if you assume that success means that the general public comes in and that the underwriter need not take any of the loan; but perhaps what you regard as success is not what should be so regarded; you might say that a loan is successful if the underwriters take it, and then within, say, the next six months or eight months, they sell it at something of a profit.

11,713. A loan is only successful, to my way of thinking, if it is properly placed in its last home, as they call it?—But I think when the general public talk of a loan failing, they mean that at first the underwriters have to take a large proportion, and the consumer only takes a little, and I think that is a very narrow sense in which to use the word, and very misleading.

11,714. It is a difficult question, but it bears a deal of consideration now as to whether the underwriting system has not broken down. I think that if you had a committee of financial city men, they would tell you that it has broken down. That is my opinion; but it is worth discussion?—I may say that we are always considering this kind of question, and when anyone with Lord Faber's experience gives us his opinion, we are very grateful for it. I mean even if I do not agree with you at the moment——

(*Lord Faber.*) I do not assert that my opinion is right; do not think that for a moment.

(*Mr. Gladstone.*) I am afraid I am of a different opinion.

(*Lord Faber.*) But it must be fully considered.

11,715. (*Mr. Gillan.*) Who was Chairman of the Finance Committee before Lord Inchcape?—Mr. LeMarchant, who gave evidence, you will remember.

11,716. Then allowing for the fact which you pointed out to the Chairman that Lord Inchcape had an Indian qualification, you have had in succession three city men at the head of the Finance Committee?—Four, because before Mr. Le Marchant there was Mr. Bertram Currie, who was also a city man.

11,717. I understood you to say, in answer to the Chairman, that it was the practice that the Chairman of the Finance Committee should be a city man?—Yes.

11,718. Were you not putting that rather too definitely?—From the time that Mr. Bertram Currie became Chairman, which, I think, was about 1880, there has always been a city man as Chairman of the Committee.

11,719. Since 1880?—Yes, I think that is so. It is round about that date.

11,720. (*Lord Kilbracken.*) No, it was rather later than that. When I came to this Office here Mr. Drummond was Chairman?—As a matter of fact, I have the book open here, and I can tell you when Mr. Bertram Currie was appointed. He was appointed in 1880, but I suppose that he did not become Chairman at once.

11,721. No, not for some years after that, five or six years, I think?—Mr. Drummond left in 1885, so I suppose Mr. Bertram Currie succeeded him as Chairman of the Finance Committee; if so, it dates from then.

11,722. (*Mr. Gillan.*) At any rate, there seems to be something in the conditions which favours the appointment of a city man as Chairman of the Finance Committee?—I do not know that there is very much advantage in it. I may mention that I was discussing it with Sir Felix Schuster, and he rather inclined to the opinion that it would be better if the City Member were a member of the Committee, and there to give his advice and knowledge when it was required, but were not Chairman of the Committee. I think I agree with him. It is not a point to which I attach very much importance.

11,723. (*Lord Kilbracken.*) May I ask you a general question. Are you satisfied on the whole with the working of the present system?—Do you mean the Council system or the system in its broadest sense?

11,724. The system of financial organisation as it now stands?—As it now stands—and you will remember my distinction between that and the normal organisation—I think it is a very good organisation. There are very small defects; I mean, for example, a meeting of the Finance Committee is sometimes rather long and rather tedious, just as a meeting of any committee may happen to be, but no one would attach serious importance to that kind of defect. I believe that the work is well done, and on the whole expeditiously done. Certain improvements undoubtedly could be made in our governing statute to secure greater expedition, but they are all small points.

11,725. Under the law as it stands the Secretary of State could greatly facilitate business, could he not, on any special occasion?—Yes.

11,726. He can put a measure through very quickly if he chooses?—Of course, there are limitations to his powers of acceleration. If I remember the Statute correctly, he cannot deal under the Urgency Clause, to use a phrase which is very familiar to you, with any matter which requires expenditure.

11,727. Certainly, but he can have a committee meeting whenever he likes?—Yes.

11,728. And he can summon a Council on the shortest possible notice?—Yes, quite so,

11,729. And he can send a matter from the Committee to the Council without more than an hour's delay?—Yes, or indeed he can summon a Council and dispense with the Committee stage altogether. For the moment I had forgotten that besides the weekly meetings of the Council he can have as many meetings of the Council as he wishes.

11,730. Or he can have a special meeting of the Council at any moment?—Yes.

11,731. Then the financial system of the Office may be regarded as specially strengthened at this moment owing to the fact that the Assistant Under-Secretary of State has had special financial experience in the Finance Department; but Mr. Keynes suggested to you that that might be done, but that the system might be strengthened by an addition to the strength of the Financial Department?—Yes.

11,732. As between those two systems have you an opinion to give?—There is really very little competition between the two, and, I think what Mr. Keynes meant, was that both things might be done. Certainly I understood his question in that way.

11,733. That is to say, that first of all the Financial Department should be strengthened?—Yes.

11,734. And then furthermore, that either the Under Secretary of State or the Assistant Under Secretary of State should always be a person having special financial experience?—Yes, or financial aptitude.

11,735. Do you think that is necessary? Do you think it would not be possible to produce the desired effect by merely strengthening the Finance Department?—No; if I had to choose between the two methods of alteration, I have no doubt that I should choose having someone with financial aptitude or experience above the Financial Secretary; and perhaps you will allow me to explain why. The defect of the normal organisation, which has for the moment passed out of existence, is that you have a Financial Secretary who has to deal with questions of the greatest possible importance, and where there is a very great liability to error, unless one is exercising the full power of one's brains. When he has said what he has to say, and made his proposals, if the only guidance from above that he gets is that of the Committee, and does not include that of a member of the permanent staff who has financial knowledge, there is always a possibility that some big mistake will be made. The possibility or the probability will to some extent be lessened, if the Financial Secretary has rather less

work to do, owing to the bifurcation which Mr. Keynes suggests, but the remedy of having two good brains brought to bear on each of the big questions, in addition to the attention of the Finance Committee, is a much safer one, I think.

11,736. Does not that apply equally to all the Departments—to the Political Department, for instance, which sometimes has the most important questions of all?—I think the conditions are really different in finance, and I can speak with some experience, because, as you know, when the Permanent Under-Secretary is away I have to try to supervise all Departments. I think that anyone who has a general knowledge of affairs, and common sense and industry, can usually master the chief points in a political paper, whereas one might have all those qualifications but be very much at sea when trying to master the points in a financial paper. I think that the distinction, owing to the technical nature of the financial business and the usually non-technical nature of the political business, is very clearly marked.

11,737. Then you think that both of these changes, if I can call them changes, are required: the strengthening of the Finance Department and also a regular understanding that either the Under Secretary of State or the Assistant Under Secretary of State is to be a man of financial experience?—I think that the latter is required. I think the former (which would not have occurred to me but that Mr. Keynes suggested it) would be rather a useful change. I certainly do not think that it is a necessary change. I think it would be useful, and I think that its expense would be so inconsiderable that it would be worth doing. The extra expense involved would probably be at most the difference between, say, the pay of a senior clerk and the pay of a secretary, that is to say, 400*l.* a year; and probably the amount involved would be rather less than that.

The witness withdrew.

Sir Thomas W. Holderness, K.C.S.I., called and examined.

11,738. (*Chairman.*) You are Permanent Under Secretary of State in the India Office?—Yes.

11,738*a*. You have been good enough to supply us with a memorandum on the constitution, powers and duties of the Secretary of State in Council, and his establishment, which I propose should be printed with our Report, and may therefore be taken as part of your evidence.* I gather from what you have written there that you would concur in the evidence which Mr. Abrahams has just given that it is desirable that the Assistant Under Secretary or the Permanent Under Secretary, one or the other, should have had financial experience in his previous career?—Yes, I concur with that, and chiefly, I think, for this reason, that in addition to the Financial Department proper there are several other departments which have more or less financial work; there is the Stores Department, there is the Accountant-General's Department, and there is the Public Works Department. In the Public Works Department especially there are very intricate questions of finance in connection with railways. All those four Departments seem to me to want to be pulled together, and I think on the whole it is desirable that one of the two Secretaries, either the Under Secretary of State or the Assistant Under Secretary of State, should have such financial knowledge as to be able to take those departments definitely under supervision.

11,739. I would like to illustrate or explain my next question by referring to my first official experience, which was at the Admiralty. In that Department it was a rule that if any proposal was made involving expense, the papers in which it was contained must go to the Accountant-General for his observations before the papers came before the Members of the Board of Admiralty. I understand from what Mr. Abrahams has told us that the position of the Accountant-General in the India Office is quite different, and that that practice would not be followed here. If a proposal originates with the Public Works Department and involves, as it must frequently do, financial considerations, how is the control of the Financial Department secured?—By a system of reference. The Public Works Department would deal with the case first; it would then come up to the Under Secretary, who would send it on to the Secretary of State, or mark it to a Committee; but probably before it came to the Under Secretary of State, it would have been referred by the Public Works Department departmentally to the Financial Department, and any differences of opinion would have been hammered out between the two Departments. It would then come up to the Permanent Under Secretary.

11,740. Would it be possible under the system which prevails for proposals not primarily financial, but having serious financial consequences, to go to the Secretary of State, or to the Council, without their having been submitted to and reviewed by the Financial Department?—No, the Under Secretary of State would see that they had been so submitted.

11,741. And the Financial Secretary really takes the place in the India Office which I have described as being allotted to the Accountant-General in the Admiralty?—Yes.

11,742. (*Lord Kilbracken.*) And I think that when a paper of that kind has been to the Committee which corresponds to the originating department, it is generally referred afterwards to the Finance Committee, is it not?—Yes, the Finance Committee is the final reference.

11,743. (*Chairman.*) As regards what I may call the minor organisation of the Financial Department, are you satisfied with it as it at present exists?—I think that probably it requires to be strengthened. That is a very small matter. There is one Assistant Secretary at present, but I think that probably a Deputy Secretary between the Financial Secretary and the Assistant Secretary is desirable; but that might be partly counter-balanced by a reduction, say, of a senior or junior clerk in the same Department.

11,744. In the Financial Department itself?—Yes.

11,745. Would the object of the creation of the new post of Deputy or Assistant Secretary be to set free the existing Assistant Secretary to deal more fully and more exclusively with financial matters?—I think the object would be to relieve the Financial Secretary of the burden of what may be called the reference work, that is to say, the references from the other Departments; and the Deputy Secretary and Assistant Secretary should take those, with the exception of any important ones, which, of course, he would let the Financial Secretary see before he dealt with them; but I think I should free the Financial Secretary as much as possible from that ordinary routine work of departmental reference.

11,746. That is the only change in that matter which you suggest?—As regards the Department itself, that is the only change.

11,747. And perhaps a matter which is more easily and better dealt with within the office than by the Commission?—Yes.

11,748. If for any reason an Assistant Secretary were appointed who was not conversant with finance, you would then feel that some additional assistance must be given in the Financial Department, I understand?—An Assistant Under Secretary?

11,749. Yes. In that case it would have to be assistance at the top of the Financial Department, not at the bottom; it would have to be the highest class of assistance?—Yes; I do not see my way to improve the Financial Department in itself further than I have already suggested, with the Deputy Secretary. As regards the necessity for having an Assistant Under Secretary with financial experience, I think that partly,

* App. XXXV., p. 692.

depends upon what is done with regard to the Council. If on the Council there was a permanent financial member, then the burden of responsibilty above the Financial Department, and between the Financial Department and the collective Council, would be somewhat lightened.

11,750. I think it will be convenient if first of all we discuss the position as it exists, and see what would be required if the organisation of the Council were not altered?—As things are at present, the only improvement that I can suggest is that the Assistant Under Secretary should be definitely recognised as an Assistant Under Secretary for financial duties. I think in the War Office there is such an appointment.

11,751. I should like to turn to the composition of the Finance Committee of the Council as it stands. You were present while we were examining Mr. Abrahams, and you heard the questions we put to him. It appears that, for one reason or another, there has been a change in the composition of that Committee in recent years; that is to say, that whereas in former years Indian experience of one kind or another was available on the Committee, at the present time there is no Indian experience available there?—You mean Indian financial experience?

11,752. Yes, Indian financial experience; that is so, is it not?—Yes, Indian special finance experience is at present wanting.

11,753. I put to you the same question as I put to Mr. Abrahams: Does it not appear to you anomalous that with a Finance Committee you should take pains to secure special representation of Indian military experience and special representation of Indian public works experience, but that there should be no representation of Indian financial experience, either official or unofficial?—I think that is a defect, but I would rather consider that that defect has been unavoidable at times. The only way in which you can draw that special Indian financial experience is from the Finance Department of the Government of India, and the supply of ex-Finance Ministers, for one reason and another, has been at times very short. If you go back, and take the instances of Lord Cromer, Sir Auckland Colvin, Sir David Barbour, and Sir James Westland, the only man who was available among those four was Sir James Westland.

11,754. Are there any circumstances which render it impossible to seek modern Indian financial experience outside the list of ex-Finance Ministers? It may be a question of the remuneration at present attached to a Council post?—That is to say, outside of official circles?

11,755. No. I want for the moment to confine myself to official experience. I quite understand that at a particular moment an ex-Finance Minister may not be available, but all experience of Indian finance is not confined to Finance Ministers, past or present. Is there anything in the organisation of the Committee or of the Council which makes it impossible, in such a case, to consider whether there might not be an official representative outside the ranks of the Finance Ministers?—The Secretary of State could select as a Member of Council an officer who had been Comptroller-General, or who had been Secretary to the Finance Department of the Government of India.

11,756. (*Lord Kilbracken.*) Mr. Finlay?—Mr. Finlay, for instance, yes.

11,757. (*Chairman.*) How would it affect his career, supposing the Secretary of State desired to call to his Council for the Finance Committee specially a member of the Civil Service now serving in India?—I do not think he would have any difficulty. He could get a Comptroller-General or a Secretary to the Government of India who has served his time for pension in India, and he would have no difficulty in finding a man to take the Council.

11,758. You say in the para. 20 (3) of your memorandum (App. XXXV., p. 697): "The Secretary of State has "given much consideration to the question whether a "salary of 1,200*l.* a year and a tenure of office limited in "the first instance to seven years—the terms proposed "for members of Council generally—may not be found "to restrict unduly his choice of a finance member. "The terms practically limit the field to Indian public "servants who have completed, or are on the point of "completing, their Indian service, and who would "have their Indian pension in addition to the salary "of a member of Council." What I wanted to ascertain was whether it was desirable that the field should be so limited?—I think in any amendment of the Government of India Act it might be well to take power to make an appointment without the restrictions which apply to the rest of the appointments.

11,759. There has been a good deal of talk in connection with some other branches of the Public Service of interchange of officers. Has that ever been discussed in the India Office?—As regards the establishment of the Secretary of State, there are certain posts, such as the Military Secretary, the Revenue Secretary, and the Judicial Secretary, which are listed under section 4 of the Superannuation Act as appointments which may be filled outside the Civil Service by persons possessing special qualifications. In that way from time to time Indian civilians have been brought into the office. I was brought in in that way myself. As regards exchange the other way, from our Office to India, I have thought about that, and I have never seen my way clear to do it. I do not know really how you could employ a man straight from this Office in the service of India except in one or two very special capacities, those capacities involving a knowledge only of the English language.

11,760. I was thinking a little of the reverse process—whether it might not conduce to the smooth working of the Indian Government if men who had passed the main portion of their lives in the Indian Civil Service were sometimes selected to come over here for a period to see to affairs with which they had dealt, shall I say, from the other end of the telescope?—Then you would have to fit them into one of the Departments of the Office.

11,761. Of course, we are concerned only with financial organisation?—Yes.

11,762. Would it be well, in your opinion, or not, that from time to time some rising officer of financial experience in India should be brought home for five years to serve here, and then go back to resume his Indian service?—No, I do not think it would work very well. Judging from my own experience, when I came from India to this country, it took me two or three years before I quite understood the ground in which I worked here, and the atmosphere; it is quite different from the Indian one. A man sent for five years from India would be two or three years in learning that. Then there is also the difficulty of finding a special appointment vacant for him. If he is a supernumerary you have to feed him with work, and if he is to take the place of somebody in the regular line, then it is not always that you have a place vacant, and promotion is not very rapid in this office, and it would cut somebody else out from promotion.

11,763. Of course, there have been in recent years considerable political changes in India, into which I do not wish to enter except to the extent that it is necessary in connection with financial organisation; but I suppose you would say that one result of those changes has been to bring a greater light of publicity to bear upon all the financial operations, both of the Government of India and of the Secretary of State?—Yes.

11,764. And that educated public opinion in India is concerning itself much more than it used to do, or a wider section of it is concerning itself than used to be the case, with what is done in financial matters both at home and in India?—Yes, that is the case.

11,765. Do you think that the interchange of opinion, which may have been quite sufficient in the old days, between the authorities here and the authorities in India, is quite sufficient when the authorities in India are liable to so much more public criticism, and not only that, but are obliged to give answers to the public criticism in the Imperial Legislative Council?—I think the fullest possible interchange of opinions is desirable, but I do not know that that would be facilitated by bringing a comparatively

junior Indian civilian for a short period into the Finance Department.

11,766. As regards the extent to which communications pass at the present time, you have heard the passage which I read from Sir Guy Fleetwood Wilson's evidence yesterday, and I should like just to read you one other or two others, which perhaps make his view a little more clear. He said: "I must point out, "dealing strictly with the position of the Finance "Minister in India, and his relations with the India "Office, that under the present arrangement his position "is not only a very difficult one, but it is an unnecessarily and an unduly difficult one, inasmuch as he is "practically debarred from communication with any"body in the India Office who can really keep him in "touch with what I should call, for want of a better "term, the mind of the Secretary of State and his "advisers in regard to finance"; and further on, after expressing his gratitude for the confidence which the Viceroy placed in him, and for the support and kindness which were given to him by the officials in India, he says: "But I was always in doubt as to whether "I was working on sound ground from the English "standpoint. I had served abroad in other conditions, "I was in South Africa, and I was in Egypt. On each "occasion it was permissible to communicate freely "with home"; and in another place he said, as I think has already been quoted, that he was "working in the dark." What do you say about that as a criticism, not of individuals (which he was anxious not to make it), but as a criticism of the system?—As far as unofficial correspondence goes, I think that the Finance Minister in India is free to correspond with anybody in this office, either a member or the Permanent Under Secretary or the Assistant Under Secretary or the Financial Secretary, but it must be regarded as private, unofficial, non-committal correspondence. I do not quite understand the statement that he was working in the dark, because it is not supported by any particular instances of matters in which he was working in the dark.

11,767. He did mention it; he did say: "As it is, "the unfortunate Finance Minister—it occurred to me "—within three weeks may have to alter his Budget "from top to bottom on two occasions"—that is how the words have been taken down, but I suppose it should be: "It occurred to me on two occasions "within three weeks that he may have to alter his "Budget from top to bottom," and he goes on "and "then you do not know whether you are in accord "with what I may call the inner mind, the inner "consciousness, of the India Office and of the people "at home." The suggestion which underlay all this part of Sir Guy Fleetwood's Wilson's evidence was that the organisation of the India Office should provide what he described as an *alter ego* to the Finance Minister in India—what I think we often in slang terms call an opposite number—with whom he would naturally carry on an unofficial correspondence in which doubtful points could be cleared up, or the ground could be sounded before him?—I think that is done with other Departments of the Government of India. In India the Commander-in-Chief, who is also the Member in charge of the Army Department, is in constant communication both with our Military Secretary, Sir Beauchamp Duff, and also with General Sir Charles Egerton.

11,768. You see no reason why, under the present system, it should not be done, so far as it is required and within due limits, by the Finance Minister?—Yes, and any very important matters, where the Indian Government are contemplating, say, a large increase of taxation or a radical alteration of certain important branches of revenue, would ordinarily be mentioned by the Viceroy to the Secretary of State in his weekly letter, or in reply to a private telegram. The Finance Minister would thus be able to reach the most authoritative source and find out what the Secretary of State thought of the proposal, and whether he would be able to support it.

11,769. Still, assuming that the present organisation continues, I think you have said that in your opinion it is desirable, other circumstances being equal, that Indian financial experience should be represented on the Finance Committee?—Yes.

11,770. Would you agree that where possible it is desirable that unofficial Indian experience should also be represented there?—If you have a large enough Council to find a place for it.

11,771. You do think it important that as far as possible Indian experience should be represented in the one capacity or the other?—Financial experience. I think it is desirable; at the same time, I have never looked upon the Council as a Council of specialists. I think the aim of the Secretary of State has always been to select the best man available at the time, and as such persons will be practised administrators and will have had to do in the course of their service with questions of Indian finance, they are not without a certain amount of financial knowledge.

11,772. But, proceeding on the same lines of choosing the best man without regard to the representation of special interests, can you conceive of a Secretary of State's Council upon which there were no military men?—No, I think that there are certain things which he should look to. The three essential things generally are civil administration, military affairs, and finance and commerce. Those are the three things which ought to be represented in the Council, but as against a third-rate finance man, the only man available, and a first-rate administrator, I would take the administrator.

11,773. On the whole, therefore, it comes to this, that you think it one degree less necessary to have direct financial representation on the Council than to have direct military representation?—Yes.

11,774. If you were ever unfortunately reduced to a condition of things in which your choice was between a third-rate military member and none, you would still take the third-rate military member?—If such a condition of things existed.

11,775. In recent years, whilst Indian financial experience has not been directly represented on the Council, you have had London experience continuously represented there?—Yes.

11,776. You would I suppose, agree with Mr. Abrahams that it is important that London experience should be available in that form to the Secretary of State?—As long as the functions of the Council are as at present.

11,777. The evidence which has come before us has shown in some quarters a great deal of jealousy and suspicion, much of it, I think, unfounded, of the supposed influence of the City of London over the action of the Secretary of State. You would probably feel that that criticism has been rather fed by the absence of any representation of Indian financial experience in recent years?—Yes, that is so.

11,778. And perhaps it has been still further fed by the fact that the Chairman of the Finance Committee has been in recent years a prominent City banker?—Yes.

11,779. Do you think that on the whole it is desirable that the Chairman of the Finance Committee, if the Finance Committee were to continue as at present, should be a City banker?—No, it is not at all necessary, and I can see some advantages in another system.

11,780. Now I would like to turn to the changes which are contemplated. Of course, we have nothing to do with those changes in their non-financial aspect, but I am not quite clear, and perhaps you can make clear to us, what would be the natural financial organisation as part of the general scheme which Lord Crewe sketched to the House of Lords?—On the Council I should hope to see a member possessing Indian financial experience, and I suppose that he would be attached, so to say, to the Finance Department; that is to say, the cases which now go to the Finance Committee would normally go to him. As to whether there would be a Finance Committee to which cases would always be referred, of which he would be the Chairman, it is difficult at present to say, but I should think that if there were not a standing committee for all important cases there would be *ad hoc* committees.

11,781. I think we have got it from you that you feel it desirable to combine, if possible, Indian financial experience and London financial experience?—On the small council which is contemplated of, say, eight members, it is rather difficult to find room for the City member as well as the Indian finance member.

11,782. That is what I thought?—We must have an Indian finance member, because he must necessarily be a whole-time member, and a City man cannot be that; and again, the City man, as I have explained in the memorandum,* is not conversant with a great deal of the detailed finance work of India; he knows only the English aspect of it.

11,783. Lord Crewe has invited an expression of opinion from us on these changes as they affect finance. If they are carried through, will you be able to combine your access to City experience with your new organisation?—I think that is a point upon which he would be glad to be advised by the Commission. If it is necessary to have a City member recognised as a half-time member, he would have to be over and above the complement which otherwise we should consider necessary. If we had eight members without a City member we should probably have nine members; but Lord Crewe would be glad, I think, if any plan could be suggested by which we might be able to have access to advice of the kind otherwise than by adding a City member to his Council, because the Council which he contemplates is a whole-time Council, and the City member in those circumstances would be rather abnormal; also because on a small Council he would have voting power—increased voting power as compared with what he has now.

11,784. Do I understand that in the general organisation of the Office the Committees which at present exist would disappear under the new scheme?—They would probably disappear, I should think, as a machine for taking all the cases, but I imagine they would be resorted to a great deal just as they are in the Admiralty.

11,785. That is to say, at any moment the Secretary of State might set up a Committeee to deal with a particular proposal, or a particular set of suggestions?—Yes. In the Admiralty they have a large number of committees, some standing, some *ad hoc* committees, and I can quite imagine a system under which we should have committees for important work—small committees. There might be a standing Finance Committee.

11,786. Suppose it were desirable to establish a standing Finance Committee, does that involve any alteration in the legislation which now governs the Council? I understand the present Finance Committee must be drawn from Members of the Council?—Yes.

11,787. Suppose it were desired to constitute a permanent standing Finance Committee of whom the Chairman only would be a Member of the Council, would that require legislative sanction?—I think when the India Act of 1858 is amended it will be amended in such a way as to leave the Secretary of State to deal with the committee question as he chooses. He could, of course, constitute a Committee consisting of others than Members of the Council. The only difficulty I see is that a recommendation of the Committee would be made by others than Members of the Council, and the deciding power ultimately is the Council.

11,788. That would not be at all a novelty in our Government, would it?—No, I do not think it would.

11,789. Nor in business affairs?—No.

11,790. (*Lord Faber.*) If you had a small committee of that sort and they came to a decision and recommended that decision to the Council, I suppose you would allow them to put their views to the Council personally, and not merely to present a report to the Council, because it would make a difference if you did not see the men and talk to them?—Under the Council system the only persons who can take part in the discussions are Members of the Council.

11,791. I think that is a drawback, because written advice under certain circumstances is not nearly so powerful, or so useful, as when you see the men themselves and talk to them?—No.

11,792. (*Chairman.*) You would have the Chairman of the Committee, of course, present at the Council; but, of course, he might not agree with the recommendation of the Committee. Would there be any difficulty in such a case, if the Secretary of State thought it well, in inviting the attendance of the other members of the Committee before the Council in order that the matters might be argued by the Committee in the presence of the Council?—That would be possible, but it is hardly compatible with the system established by the Act of 1858.

11,793. Can you tell me (because I think it is important from our point of view in considering the financial organisation) what is the object of this reorganisation? Is it expedition?—Expedition, and an increased individual responsibility.

11,794. Such a reorganisation would, I think you said, necessarily involve that the member of the Council charged with finance should be a whole-time servant?—Yes.

11,795. I am not quite clear what his relation would be to the existing Finance Department?—My idea is that it should be rather similar to what prevails in the Admiralty. The financial work would come to the Under Secretary first, or would go to the Secretary of State if it was important enough for him to see in the first place, and then it would be marked on to the finance member. If it affected two departments, or three departments, it would be marked to those two members or three members.

11,796. Would not the Admiralty routine be a little different; would not a paper there go in the first instance to the financial authorities and only come up to the First Lord after the Financial Secretary had expressed an opinion on it?—Probably that is the case, but the Secretary of State at present is solely responsible for the administration of India.

11,797. Yes, I think he is very much in the position of the First Lord of the Admiralty, as I understand. The First Lord is responsible to Parliament, but he may allot business within certain limits as he pleases in the office?—Yes, it would be a question of procedure whether it should go to the Secretary of State. I think in really important cases it ought to go first to the Secretary of State

11,798. Then as regards the other parties now represented on the Finance Committee, you have there a representation of military experience and of public works experience. Of course, it is obvious that both military questions and public works questions must constantly involve very serious financial questions. How would that experience be made available under such a reorganisation as you have described?—Any military case would be marked first to the military member, and then afterwards to the finance; and similarly with the public works. I suppose those two members in dealing with it would meet and talk over the matter.

11,799. Practically the result would be that in each case the place of the Committee would be taken by an individual?—Yes, so far as the committees are not permanently constituted.

11,800. But it is not incompatible with the scheme that attached to a Member of Council like the Finance Member there should be a standing Committee of Finance?—I think that would be quite compatible with the scheme, and I think I could understand a Secretary of State preferring that.

11,801. I think in your memorandum you draw our attention to the fact that all these proposals might be seriously modified if a State bank were created (para. 20, p. 696)?—Yes.

11,802. That is to say, if a State bank relieved the Secretary of State of the management of the balances and of the sale of Council bills, and so forth, then you would propose a different organisation altogether?—Not necessarily. I think it would only follow that the City Member might no longer be necessary, or might not be necessary to the same extent that he is at present.

* App., XXXV., para. 20 (1) and (2), pp. 696–6.

11,803. In that case you would rely in the Financial Department wholly upon the Civil Service, whether Anglo-Indian or English, and would not need the kind of outside assistance which is now required from the City?—That, I think, is our view.

11,804. (*Lord Faber.*) Considering how very difficult some of the finance connected with India is, do you not think it would be wiser rather to enlarge the Committee and make room for the two members suggested, one a member with Indian financial official experience, and the other with up-to-date London experience; because after all, if you get the right financial men, I apprehend that their opinion with the general Indian opinion on the Council would be valuable too. At any rate, I think you cannot afford, can you, to ignore the financial side of this very important matter, because it is very difficult even to men like myself who ought to know a little about finance. I think it is important that you should have two financial men there of the kind that you intimate?—That makes the reduction of the Council rather difficult, and we should have two men who are not charged with any departmental work, that is to say, the City Member and the non-official Indian Financial Member, if that is what is suggested.

11,805. You would, but, as I understand, the Indian Member with Indian experience you would be able to make use of in the office itself, would you not?—As consulting members a City Member and a member with non-official Indian financial knowledge would both be very useful, but they could not be specially attached to a department to be responsible for the work passing from that department; they would have to be attached to the official Finance Member in some form or other.

11,806. (*Chairman.*) Of course, if you had an Anglo-Indian official you could make him a whole-time servant, I understand?—Yes.

(*Chairman.*) What Sir Thomas Holderness is saying is that if you brought home an Indian merchant or an Indian banker and invited him to come, you could not make him a whole-time servant.

11,807. (*Lord Faber.*) I do not propose to do that. My view is, I think, the view held by the Chairman, that you should have one Indian with official financial experience. He would be attached the whole time to you. The London City man would not be attached, but there are many men who would value a position of that sort, and would do the necessary work very gladly. It would not be a question of what the man was paid at all?—No, I could conceive a small council with finance only represented by an Indian official, and an outside organisation which you may call an advisory committee.

11,808. The objection to that is the objection which you made yourself, that they are not in touch with the Council in person?—They are not in touch with the Council in person, and they would not be charged with the direct responsibility which lies on a Member of Council.

11,809. I would rather have a Member of Council who could lay his views before the Council and who has London experience?—Then he must be brought into the Council, and you must accept the fact that he would be a half-time man only.

11,810. (*Mr. Keynes.*) You contemplate, I think, that the Member of Council who is attached to the Finance Department should always be an ex-Indian Civil Servant?—I would not say always, but I cannot well conceive any alternative.

11,811. In spite of your view that it is not always easy to get such persons?—Quite so.

11,812. If the project of the small Council were adopted, you would have neither your Member of commercial Indian experience nor your Member of City experience; both of them would be eliminated?—That is assuming that we do not have a City Member.

11,813. It is rather an important point—I think you answered it, but I want to be quite clear—as to the relationship between the member attached to the department and the permanent head of the department. Will the permanent head of the department have the right to send papers forward to the Under Secretary and the Secretary of State before the Member of Council has seen them, or after?—My view is that they should be sent to the Permanent Under Secretary invariably in the first instance before they go to the Member.

11,814. That is exceedingly important if one is thinking what the position of the permanent head of the department will be, is it not?—Quite so. The constitution has not been finally worked out, but my view is that the proper procedure is that the papers in all cases should go from the department to the Permanent Under Secretary before they go to the Member.

11,815. (*Lord Kilbracken.*) The Member of Council would simply take the place of the Committee; is not that so?—That is my view.

11,816. (*Mr. Keynes.*) So far as the object is to expedite financial business, is there any reason why at present the Finance Committee should not meet twice a week?—It is quite possible.

11,817. Is any useful purpose served by the practice of leaving papers on the Council table for an interval of a week, I think it is, after they have passed through the other formalities?—It is the alternative procedure to putting them before a meeting of Council, and with unimportant papers the simplest way is to table them instead of putting them before a Meeting of Council. For pressing matters there is an urgency procedure by which we can get papers out at once.

11,818. I do not know what the early history of the Council is, but is not the existing procedure largely based on the hypothesis that Members of Council are not in very regular attendance at the office?—Yes, as regards Committee work.

11,819. And also that papers must lie on the Council table for a good long time if it is to be certain that every Member of the Council is to have an opportunity of looking at them?—I suppose that was the idea. I think an interval of some days was considered to be necessary to give all the Members of Council an opportunity of seeing them. It is provided by the Government of India Act of 1858. The practice is of very old standing.

11,820. But if the assumption were made that Members of Council are in very regular attendance at the Office, a great deal of the present procedure could be expedited?—There would be no difficulty at all in shortening the period of seven days to three days, or some similar period, but it would need an alteration of the law.

11,821. And also increasing the frequency with which Committees meet?—Yes, that is within the discretion of the Secretary of State. He can require a committee to meet every day.

11,822. Is the possibility of expediting business very much involved in your mind in the new proposals, or do you think there are other ways of effecting it?—It would be expedited in this way, that a great mass of unimportant business instead of going before the Committees, and being discussed at length and probably remanded for a week or a couple of weeks, would be dealt with by a single Member, probably in the course of a day.

11,823. But you would always have that, would you not, if the Chairman of the Committee were empowered to mark papers on and to take the view that his Committee would not wish to see them in detail?—That arrangement, no doubt, would be possible if the present statutory requirements were modified.

11,824. I wanted to ascertain how far there were other objects. It appears, *primâ facie*, that it is rather a far-reaching scheme if the only object is to expedite business?—To expedite business and also to fix individual responsibility to a greater extent than is the case at present.

11,825. (*Sir Shapurji Broacha.*) How many members of Council has the Secretary of State?—At present?

11,826. Yes, independent of finance?—Including everybody there are at present 10 members.

11,827. And there are 10 members on the Finance Council, I suppose?—On the Council of the Secretary of State there are 10 members.

11,828. (*Lord Kilbracken.*) What is the maximum by law?—Fourteen under the existing Act. We are now at the minimum.

11,829. (*Chairman.*) On the Finance Committee how many are there?—Five members at present.

11,830. Five out of the 10 existing members of the Council form the Finance Committee?—Yes.

11,831. (*Sir Shapurji Broacha.*) You do not call the Chairman of the Finance Committee a member of the Council, do you?—Yes, he is a member.

11,832. Including him there are 10?—Yes.

11,833. And then there are 10 members now on the Finance Committee?—No, five members of the committee and 10 members on the Secretary of State's Council.

11,834. Is the composition of the Committee periodically considered?—Every year the Committees are reviewed and alterations made in the constitution of the Committees.

11,835. Of course, those who have financial experience are sent to the Finance Committee?—Yes.

11,836. You have two Indian Members on the Council?—Yes.

11,837. Are they selected for any particular qualification?—Selected for the Council, do you mean?

11,838. Yes?—They have no special financial qualification.

11,839. But what qualification have they?—They are not selected for any special business; they are selected as probably the best Indians available. The selection is that of the Secretary of State.

11,840. The best Indians available for what qualification?—For advising the Secretary of State generally on Indian business.

11,841. Or is it because they are safe and must belong to a certain community?—Certainly both the great religious communities of India are represented.

11,842. If there is another community there with a member of fit qualification, I suppose he is not taken from it, but from the two large communities, Mohammedans and Hindus?—One of the Members happens to be a Mohammedan, and the other happens to be a Hindu, but there is no reason why these two appointments should always be distributed in that way.

11,843. I think in both communities there are people of good financial ability. Why not select one with financial ability to give confidence to the large number of articulate people of whom the Chairman just now spoke?—The appointment of Members rests wholly with the Secretary of State, and in making an appointment he has to consider many things.

11,844. Of course, we know that all the appointments are made by the Secretary of State, and we are considering what appointments should be made on the Finance Committee, and we are considering what selections should be taken from India. Could not that be done? Could not you select as one of those Indian Members a man with financial experience?—I have no doubt it might be desirable, but at the same time I do not see how you can fetter absolutely the discretion of the Secretary of State as to the selection of the Members.

11,845. You have been talking of a State bank. Will a State bank reduce the expenditure in the office in any way?—Not materially as far as I can see.

11,846. I do not think it would in any way. I do not think you want to extinguish any department?—No.

11,847. (*Mr. Gillan.*) It is the case, is it not, that the Secretary of State's powers are different in financial and in non-financial matters?—Yes.

11,848. In non-financial matters he acts for himself?—He can overrule the Council.

11,849. In financial matters—or is it in matters of expenditure—he acts as Secretary of State in Council?—In financial matters he is bound by the majority of votes of the Members present at the meeting.

11,850. There is another distinction which suggests itself as possible; I do not know whether it is correct. It may be put in this way, that in non-financial matters the Secretary of State is really considering the action to be taken by the Government of India—that other Departments, non-financial Departments in fact, in the India Office, are not executive Departments, and that the Finance Department is executive in the sense that it has to do the whole of the home business of the Government of India?—I do not think that distinction really holds.

11,851. You think not?—No. There may be administrative matters not touching finance; for instance, an alteration in the Code of Criminal Procedure or the Penal Code, or a number of things in which you are touching the whole administration of India, but which have no financial aspect.

11,852. That is hardly my point. In those matters the Secretary of State could give directions for certain action to be taken in England?—Yes.

11,853. But in financial matters there is a large field in which he has himself to take action here in England?—That is true, but that is not the reason for the distinction in the Act.

11,854. No, I was putting it as another distinction?—Yes, it is a distinction, certainly.

11,855. What was in my mind was this, that, whatever reasons may be given for adopting representation of members in charge of other departments, possibly there might in that distinction exist a special reason for taking that course in regard to financial matters?—Yes, but there are many Indian matters besides finance that concern this country as well as India with which the Secretary of State and the members of his Council have to deal.

11,856. You think there is not much in that distinction?—I do not think there is much in it.

11,857. (*Lord Kilbracken.*) You said that you did not attach much importance to the principle of representation on the Council?—No, not representation by specialists.

11,858. But is it not the case that that representation has generally been recognised as rather important?—In its main outlines; that is to say, you want to provide for the civil administration, for the military administration, and, if you can, for the finance.

11,859. I am speaking now of the past. Official Indian experience and non-official Indian experience would generally be thought important enough to have representatives on the Council?—Yes, that is so.

11,860. And then the City has had representation for more than 30 years, certainly; and the Presidencies?—To a certain extent.

11,861. I think the Presidencies are represented now?—Yes, they are, but as regards the civil administration, the main consideration with the Secretary of State has, I think, been to select the best men available in India.

11,862. Of course, a great deal of importance is attached to that, but still, the idea of representation is distinctly recognised?—Yes, in the early stages of the history of the Council.

11,863. In all those points which I have mentioned—military, finance, Indian administration, Presidencies, City, and official and non-official Indian financial experience—that has been the practice, has it not?—I am not sure whether very much importance has been attached to Presidency representation. It is clear you cannot represent all the Provinces.

11,864. No, but the Presidencies?—The three Presidencies probably would have representatives on the Council.

11,865. Are you in favour of a system of whole-time Members of Council?—I am in favour of it to this extent, that I think Members ought to understand that their time is at the disposal of the Secretary of State.

11,866. Has not that been understood in the past except with regard to the City Member, who stands on a somewhat exceptional ground?—It may have been loosely.

11,867. What you want is a little speeding up?—More or less a daily attendance, I think.

11,868. Would you be in favour of increasing the pay?—I think the pay ought certainly to be brought back to its old level of 1,200*l.* per annum.

11,869. Do you think that the present pay of 1,000*l.* a year for seven years is sufficient to attract the best men from India?—Not always. I have known instances to the contrary.

11,870. As to the Finance Committee which you sketched out, which used to be composed of the Finance Member as Chairman and of other individuals, what sort of Members were you thinking of besides the Chairman?—Do you mean as at present?

11,871. No, under the new scheme?—It is not yet definitely decided whether we should have Committees or not, but, assuming that there is a Finance Committee, the Committee would, I suppose, be constituted of the Finance Member and of, say, two other Members, one of whom would be the City man; or you might have four Members altogether.

11,872. But what sort of men have you in your mind?—You would have to take them out of the Council.

11,873. I thought they were to be outsiders. I am speaking now of the Finance Committee. On it, of course, you would have the Finance Member as Chairman?—Yes.

11,874. Who would the other Members be—what sort of men?—The other Members would be Members of Council.

11,875. But no outsiders?—No outsiders. That was only a suggestion which I threw out to Lord Faber, that it might be possible to have an Advisory Committee for certain matters of finance; but I do not think there is very much in that suggestion. It is open to many objections.

11,876. Do you attach importance to the Committee system—to the discussion of measures in Committee?—In the larger questions I certainly do, but there is a great deal of work which goes before the Committees, and which has to go to them under the present system, which need not go, in my opinion.

11,877. Why do you say it has to go? No business need go to the Committee unless it is sent there by the Secretary of State or the Under Secretary?—No, but if the alternative procedure is adopted, and it is marked, say, to the table, it lies there for seven days.

11,878. It need not; it might be marked to the Council?—I was thinking of the unimportant matters which need not really go to a meeting of the Council. The alternative then is to table the case—to put it on the Council table—and if it does not go to the Committee, and is simply passed on to the Council table, you run the risk of having some of the Members objecting to orders which are proposed to be issued, and then you get a greater delay than if you send the case at once to the Committee.

11,879. If you do not send it to the Committee, and do send it to the Council?—If you do not send it to the Committee but put it on the Council table, you run the risk in the seven days of having your orders objected to.

11,880. But I suppose the great majority of papers which are sent to the table are papers as to which it does not matter in the least whether they lie for a week or for three days?—Yes, a great many papers do go there without going to the Committee, but I am referring more particularly to certain other papers which ought to be seen by one member of the Council at least, and which go to a Committee at present, and which are often talked over at very considerable length.

11,881. But as a rule the discussions in Committee are extremely useful, are they not?—Yes, I agree.

11,882. Do you consider that there is any single member who would be an adequate substitute for the Committee?—In the smaller matters I think he would. In the larger matters it is possible that Committees may be desirable, and even if they should not be considered desirable, there will be under the contemplated new procedure in nearly all important matters the opinions of at least two members, because all important matters touch two departments, or generally do.

11,883. Yes, but two members are hardly enough to form a Committee to begin with; and would you suggest that those two members should always meet and discuss business in the way that Committees now discuss business, or would it all be done under hand and seal?—That would depend upon the regulations which the Secretary of State in Council might make.

11,884. But we want to get some idea of how it would work. Are you dissatisfied with the present system of transacting business as it stands?—No, on the whole I think it is good. There is a certain amount of unnecessary delay and formalism in various ways which is due to the Act.

11,885. But still, a good deal could be done without amending the Act in any way?—Yes, a good deal could be done, but the Act is a pretty stringent one.

11,886. The business which has to be transacted generally has some reference to the mails, has it not? I mean most of the business is with India?—Yes.

11,887. And therefore, if there is a mail, you have a week?—Yes, and for that reason the Council meeting generally is in the early part of the week, so that we have three clear days to get off despatches to India.

11,888. But that rather affects the question of urgency, does it not; I mean you cannot proceed with the same despatch in your correspondence with India as you can when you are corresponding with another Department in this country?—Not when you correspond by despatch; but we do a good deal of the work by telegram.

11,889. And arrangements are made largely with reference to the Indian mail, I suppose?—We endeavour to make our procedure as expeditious with regard to mails as we can.

11,890. You think that an amendment of the Act is required, but probably only in small matters, matters of form?—The present procedure could be improved by an amendment of the Act in small matters, but the view of the Secretary of State is that a larger and more radical amendment of the Act is required if he is to get increased efficiency and more rapidity out of his Council.

11,891. (*Chairman.*) I should like to ask one or two more questions. I can quite understand the objections which I think you have pointed out to us to being obliged to send many matters of mere detail before the Committee, and to the delay which is consequently caused. If you could deal more expeditiously with such minor points, and eliminate the reference to Committee in their case, would you be satisfied to retain the Committees for the larger questions?—Yes, I think the Committees would be very good for the larger questions, hut I am not sure whether a system of *ad hoc* Committees might not in many cases be preferable.

11,892. I am not quite clear what you mean by a system of *ad hoc* Committees?—I would have Committees constituted for the occasion in the larger cases.

11,893. Do you think that you would deal with finance in that way? Take the kind of questions upon which you frequently want advice at the present time: How much can the Secretary of State count upon borrowing; at what time should he borrow; in what amounts, and at what rates should he underwrite his loans? Do you contemplate the appointment of a Committee *ad hoc* for each operation?—No, I think there is a special reason for a standing Finance Committee.

11,894. Is it compatible with the general scheme of reorganisation that the standing Committee should be composed, as I think you said just now to Lord Kilbracken you would prefer, of Members of Council?—It is quite compatible with the scheme of a standing Finance Committee composed exclusively of Members of Council.

11,895. And it would be compatible with the scheme that in that Finance Committee there should be, not merely a whole-time Civil Servant of financial experience, but that there should also be a representative of City finance?—Quite compatible. That is, if we had a City member he would naturally find his place on that Committee.

11,896. It would not destroy the plan which the Secretary of State has had in mind if he found himself

obliged, in order to constitute his Finance Committee successfully, to have at least two members of the Council chosen specially for financial knowledge?—It might require him to make his Council rather larger than he at present thinks desirable, but he will take powers to have a maximum and a minimum number of Members, and I suppose within the maximum it would be possible to provide for these two men.

11,897. Would you agree that the usefulness of the City representative would be diminished if he were treated as a pure specialist in finance, and summoned only to a Finance Committee, and, if he did not have the opportunities, which he now has as a member of the Council, of informing himself generally of the progress of Indian affairs, and listening to, and taking part in, the discussions which take place on general questions of Indian administration?—I think if he is placed in the Council at all he must be admitted to the whole of the business.

11,898. One more question: If he were not placed in the Council and summoned only to a Finance Committee, do you think he would be as useful even on the Finance Committee as he would with the wider experience which under present circumstances he obtains?—No. His knowledge would be as useful, but he would not speak, as far as I can see, with the same sense of responsibility.

11,899. (*Lord Kilbracken.*) Do you think that it is possible to reduce the Council below ten?—I think under the system contemplated it might be possible to work it with eight.

11,900. Including the two Indians?—Including two Indians.

11,901. Then there will be only six non-Indians on the Council?—Yes. That, of course, is not providing for the representation of the City or of Indian mercantile interests. If those are both to be provided, then, I think, you would have to have more than eight.

11,902. At present there are two City members?—Yes.

11,903. And the suggestion is that we should do without them in future?—That is the suggestion that has been made.

11,904. (*Lord Faber.*) There is no reason, is there, why what we call the City Finance Member should not have a very good opinion on general matters connected with India? Because he is a finance man there is no reason that he should not have considerable ability in other directions?—We have had very great help from our City members in the past.

The Commissioners conferred with the witness in private, and the witness thereafter withdrew.

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